INCOME DISTRIBUTION AND SUSTAINABLE ECONOMIC DEVELOPMENT IN EAST ASIA: A COMPARATIVE ANALYSIS [*]

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1. Introduction

The economic crisis in East Asia that started in Thailand in July 1997 was indeed a wake-up call for many of these 'Miracle Economies' in East Asia to realise that rapid economic development that is not followed by a more mature institutional infrastructure and economic management system can lead to a disaster. This recent economic crisis has given rise to at least two new thoughts on the ways in which a country develops its economy. One is that, despite the rapid economic growth experienced during the boom years, poverty can return quickly if the crisis results in the collapse of the real sector and the ensuing extensive unemployment. And the other is that problems of income inequality can no longer be ignored and relegated to the background of policy determination during the period of economic prosperity. We have seen in several crisis-hit countries that, in the past few years, poverty incidence fell because average income of the people increased through increased employment brought about mainly by economic growth. But, often, that economic growth came as a result of inappropriate and unsustainable economic activities associated with a bubble economy (such as speculative movements in the stock market and speculative investment in the real estate sector). When the bubble bursts, those economic activities die with it, causing a real reduction in income and welfare, and a real increase in poverty incidence. [1] On the second point, the economic prosperity during the bubble period had overshadowed the concern for economic inequality. ` No one cares if his or her income is lower than others around them as long as their own income kept on rising. But this growing income inequality could be the pretext under which the rich or the top income group were able to engage in inappropriate and unsustainable economic activities as mentioned earlier, which had brought about economic disaster and crisis later.

In a future economic management in a developing economy, therefore, one must not be blinded by the extent and speed of economic growth that often characterised many East Asian economies in the past. A future sustainable economic development should be characterised by a reasonable rate of growth of the economy, with price stability, satisfactory employment situation, adequate consumption growth of the right kind, stable government with sufficient public revenues and appropriate and efficient public expenditure system, natural concern for and preservation of the environment, and the good prospects for future growth and development. The implications towards the two

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[1] Take for example, the collapse in the construction sector after the 1997 crisis, releasing a large number of unskilled workers from the rural sector.

new thoughts mentioned above would be that the anti-poverty strategy be made more conducive to long-term change rather than short-term, transitory poverty reduction, while, at the same time, the minimum social safety net be put in place to protect the poor, the needy and the helpless. Perhaps even more importantly, the concern for income distribution must be stepped up so that growing income inequality will no longer be tolerated but dealt with firmly because, without satisfactory income distribution, sustainable development can hardly be attained.

This paper synthesizes major findings from eight selected East Asian country studies regarding the relationship between growth of the economies in the last decade and the distributions of income in those countries. In analyzing about such a relationship, country authors also discussed certain economic policies that are supposed to have some bearings upon the existing or resultant income inequalities in the countries. The eight selected East Asian countries are China, Indonesia, Korea, Malaysia, Philippines, Singapore, Thailand, and Vietnam. The different patterns of economic growth in these eight countries are discussed in Section 3, to be followed by the discussion on different patterns of income distributions and their sources in Section 3. Section 4 discusses the impacts of some economic policies on income distribution in these countries. Finally, Section 5 summarises the main findings the studies and offers remarks on future policy implications.

2. Patterns of Economic Growth in East Asia

Despite diverse historical origins and different environments surrounding the ways in which each economy in East Asia began its development process, one fact remains clear: almost all of these economies experienced a very rapid economic growth in the 1980s and the first half of the 1990s. Indeed the growth of East Asian economies represented by the majority of our economies above was so impressive and outstanding that numerous studies were undertaken to explain or analyse the apparent success of these East Asian economies. The most well known of these studies is, perhaps, ***The East Asian Miracle (****EAM)* published by the World Bank in 1993.

According to the EAM, there were at least three main explanations to the economic success of East Asia. The first explanation referred to the non-interference of the state and the force of the free market in the neoclassical fashion. Wolf (1988), for instance, found that many of these successful East Asian economies benefited from decisions and policies that limited government’s role in economic decision making and allowed markets, despite their imperfections and shortcomings, to exercise a decisive role in determining resource allocation. Even earlier on, Chen (1979) already saw the merits of this non-interference of the state, saying that what the state had provided was a suitable environment for the entrepreneurs to perform their functions.

The second explanation, often called revisionist explanation, challenged the neoclassical view by arguing that the governments in many of these economies extensively and selectively promoted individual sectors (sometimes even by deliberately distorting prices). The third explanation, which was made by the World Bank in its 1991WDR, lies between the first two explanations. In this so-called ‘Market-Friendly View’, rapid growth in East Asia was associated with effective but carefully delimited government roles. The governments need to do less in the areas where the markets work, and to do more in the areas where the markets could not be relied upon. In the World Bank's view, the appropriate role of governments in a market-friendly strategy was to ensure adequate investments in people, provision of a competitive climate for enterprise, openness to international trade, and stable macroeconomic management. The EAM itself expands on this third interpretation and suggests a Functional Growth Framework whereby the three policy choices, namely the attainment of good basic economic fundamentals, the selective intervention, and the existence of good institutions, are used to explain the East Asian economic miracle (World Bank, 1993, p. 88). [2]

The eight East Asian countries that are the subject of this study can be loosely classified into 3 groups. Singapore and Korea would be classified into a group of more advanced newly industrialized countries, whereas the ASIAN-4 countries, namely Indonesia, Malaysia, Philippines and Thailand would be classified into a group of developing, middle-income countries. China and Vietnam were former socialist economies recently converted to market oriented economic systems. China is a unique case where the country is a developing country in terms of economic development but with a potential to be a major economic power in East Asia, if not the world, in the near future.

As shown in Table 1, the state of development in these eight East Asian countries is quite disparate. As expected, Singapore and Korea rank first and second in terms of PPP per capita GNP. Malaysia, Thailand and Philippines enjoy the middle positions in the overall ranking, with China surpasses Indonesia and Vietnam in the last place. Singapore's GNP per capita is about sixty-three and a half times that of Vietnam, but this disparity is reduced to twelve and a half times in PPP term. The average growth rates of GDP of Singapore and Korea were also higher than any other East Asian economies that had emerged from severe economic crisis. The economic recovery in Korea was unusually rapid, as its GDP growth rate was a very high 7.8 per cent. The Chinese economy continues to grow very fast during this post-crisis period, with Vietnam growing fairly well at 4.1 per cent per annum. Using Japan as a benchmark of reference point, Singapore PPP GNP per capita was 92 per cent of the Japanese PPP GNP per capita. Korea's position was almost 64 per cent of the Japanese PPP income level. The rest of East Asia is still far behind Japan in their terms of PPP income per capita comparison.

The last three columns of Table 1 show the average rates of growth of GDP of these eight countries from 1980 to 2000. It may be seen that the average growth of the Singaporean and Korean economies during 1980 to 2000 were almost the same at 7.4 and 7.3 per cent per annum, respectively. The ASEAN-4 economies also grew quite well (around 5 to 6 per cent), with Philippines as the exception. Indeed Philippines' growth was the lowest in our selected countries (only 2.2 per cent per annum). China is the champion of all with the growth rate of GDP exceeding 10 per cent per annum during the last two decades between 1980 and 2000. Vietnam also grew very fast after it has joined the capitalistic system.

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[2] Good basic fundamentals include stable macroeconomy, high human capital, effective and secure financial systems, limiting price distortions, openness to foreign technology, and good agricultural development policies. Selective interventions include export push, financial repression, directed credit, and selective promotion. And good institutions include technocratic insulation, high-quality civil service, and existence of monitoring facilities.

Let us look more closely at the growth patterns of each of the eight countries, especially in the early 1990s before many of these countries suffered debilitating economic crisis. In Thailand where the crisis started, the country had enjoyed extremely rapid economic growth in the latter half of the 1990s. [3] What had made this fast growth possible were a combination of success in merchandise exports, earnings from foreign tourism, and large influx of foreign direct investment. This rapid growth had created a bubble economy where risky and often unproductive speculative spending thrived in stock and property markets. Coupled with the defects in the official exchange rate management systems, and the mismanagement in the private banking and finance sectors, Thailand lost practically all of its foreign reserves in an attempt to defend its pegged currency, and the floating of its currency had brought about a chain of events that not only plunged Thailand into an economic crisis but hurt many other East Asian economies as well. After registering two years of negative growth in 1997-1998, the Thai economy recovered to register moderate growth of ranging from 4.4 per cent in 1999 to 6.9 per cent in 2003 between except for 2001 when the growth rate contracted to 2.1 per cent.

Among our selected East Asian economies, Indonesia probably was the most affected, but that was mainly because of its unresolved domestic political problems. It was undeniable that the Indonesian economy under General Suharto was doing well until the onset of the crisis in late 1997. From the beginning of the New Order in the late 1960s, Suharto's government had dismantled several government interferences in the market, maintained price stability, reduced direct control, freed up foreign exchange system, gave high priority on export trade, encouraged private investment, and quickly rehabilitated the economy's infrastructure, particularly transport, communications, power and irrigation. These improvements led to a substantial rise in foreign capital inflow, and private foreign investment contributed to the rehabilitation of the export sector as well, particularly in extractive industries. Between 1970 and 1977, the export earnings of Indonesia rose more than 9 times. Out of this monumental change, one began to see also a change in industrial development policy. Now the maximum growth of extractive exports and capital-intensive import substitution were encouraged. Investment strategies called for accelerating inflow of foreign capital for petroleum, minerals and lumber, and for capital-intensive manufacturing.

Meanwhile large export earnings and government revenues enabled the increased subsidisation of the rice production, and self-sufficiency was attained in the early 1980s. But that was also the time Indonesia faced the adverse conditions of an oil-price slump. It had then realised that to become too dependent on oil exports alone could get the economy into trouble too in a situation like this. So, another structural readjustments were in order. The trade and exchange rate policies were liberalised; the currency was devalued several times; various controls were lifted; and many administrative procedures were streamlined to make them more efficient. Moreover, the non-oil exports received greater government promotion. As pointed out by Nasution (1997), these heavy doses economic liberalisation and reforms throughout the latter half of the 1980s and the first half of 1990s in all major policy areas

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[3] The average growth rate of GDP in 1988 at 13.2 per cent was reputed to be the highest in the world that year.

(exchange rate policy, fiscal policy, financial and monetary policy, trade policy and other regulatory framework policy) had helped Indonesian economy grow very fast. If there were any weaknesses in the Indonesian development during these periods, they included the lack of adjustment in the highly protected 'strategic industries' such as automotive industries, petrochemicals and infrastructure projects, forest-based industries, and state-vended products (Nasution, 1997, p. 548). This had given rise to transfers of monopoly rights from the state to a number of politically well-connected private companies, which later had become the seeds of domestic political problems that exacerbated the currency crisis in 1997. However, the Indonesian economy has since recovered, slowly but surely, showing a steady growth that averaged 4.5 per cent per annum over the 2000 – 2004 period.

Malaysia which became the next target of the speculative attack on its currency after Thailand in July 1997 would have suffered the same fate as Thailand had it not been for the fact that Malaysian leaders decided to float its currency before losing too much of its foreign reserves. Unlike Thailand and Indonesia, Malaysia did not need to seek assistance from the IMF, and indeed had instituted exchange and capital control policies that seem to work to maintain stability in the economy. It must be admitted that the apparent success of these policies is attributed to the resoluteness and strong leadership of the Malaysian Prime Minister, Dr. Mahathir Mohamad. But the Malaysian economy is probably strong enough to rely on more orthodox policies anyway. As shown in Ragayah (2003), in the 1970s, the real rate of growth of GDP of Malaysia grew at an average rate of 7.8 per cent per annum, but slowed to below 6 per cent per annum in 1980s. Until the 1997-98 crisis, the average growth rate in the 1990s exceeded 8.5 per cent. The growth plunged to minus 7.4 per cent in 1998 but recovered rapidly to a growth rate of 6.1 per cent in 1999 and 8.3 per cent in 2000. The high growth rate of the whole economy is associated with the intensive growth of the manufacturing sector (with double-digit growth between 1970 and 2000, with the exception of the 1981-85 period). The share of agriculture declined rapidly from 29 per cent in 1970 to 8.5 per cent in 2000 while the share of the industrial sector increased from 31.4 to 40.3 per cent in the same period. The Malaysian economy expanded only 0.3 per cent in 2001 due to the global slowdown but has since improved, reaching a peak of 7.1 per cent in 2004.

But in the Philippines, it was another story. Balisacan and Piza (2003) had shown that despite strong economic growth in the 1960s and 1970s, Philippines experienced little structural transformation compared to Thailand, Malaysia and Indonesia. Foreign debt problems together with political crisis in the early 1980s caused the Philippines economy to fall into recession during 1984 and 1985. The economy recovered briefly under the new administration in the latter half of the 1980s, but quickly experienced difficulties again due to continued debt overhang and fiscal deficits. It was not until the early part of the 1990s that the economy started to recover again. The average growth rate of per capita GNP was about 1.2 per cent between 1991 and 2000. This relatively low growth base of the economy probably explains why the impact of the East Asian economic crisis on the Philippines economy was much smaller than its ASEAN neighbours. Another reason was that Philippines had in place more effective prudential financial regulations as a result of the mid-1980s crisis. Like Indonesia, the Philippines has shown a relatively stable growth rate in the new millennium, attaining a mean growth rate of 4.5 per cent between 2001 – 2004.

Strong prudential regulations and financial managements also help explain why the impact of the crisis on the Singapore economy was small. The crisis that started in Thailand in July 1997 was basically a currency and financial crisis. It, therefore, is not expected to hurt Singapore economy directly, although the island economy did suffer from the slow down in the economies around it. Singapore’s real GDP contracted 2 per cent in 2001 as a result of the global downturn. It recovered slightly in 2002 but its growth rate decline again due to the Severe Acute Respiratory Syndrome (SARS) epidemic in 2003. However, supported by the upturn in the global economy, especially in the demand for ICT products plus the revival of tourism activities pushed the island’s growth rate to 8.4 per cent in 2004.

Again, the situation was quite different with respect to Korea, the country with roughly at the same level of economic development but much different in the ways their banking and financial sectors are run. The weak Korean banking and finance sectors collapsed under the weight of massive capital outflows and the loss of confidence in the international financial market. But like Singapore, the Korean economy is based on a very strong foundation of human capital. The Korean people and the Korean government were able to make necessary adjustments quickly which resulted in a very quick recovery, with the annual growth rate averaging 7.4 per cent during the period 1999 - 2002.

That leaves China and Vietnam as the remaining two countries that we would like to check the patterns of economic growth. It is well known that China began to move away from a centrally-plan economy to a market-oriented economy after the death of Mao Zedong in 1976. The economic change-over was difficult and fraught with political danger, and it took Deng Xiaoping, Mao’s successor, many years to effect such a move away. By early 1980s, however, the fundamental economic reforms were in place. The reforms have created high economic growth in China, with the average annual growth rate of GDP close to 10 per cent between 1978 and 2002. As pointed out in Tian He et al. (2003), the reforms which not only alter the economic structure (agriculture become less important, manufacturing becomes more important), but also ownership structure in Chinese industries, with the increase in non-public owned enterprises (from 7 to 45 per cent between 1978 and 1999) at the expense of the decline in state owned enterprises (from 56.8 to 28.2 per cent between the same period). The rapid economic growth has brought about rapid changes in all aspects of the economy leading to better living conditions for the Chinese people. This pattern of fast growth and development continued throughout the difficult periods of economic crisis in East Asia with it maintaining more than 7 per cent growth rate over the crisis years. It registered 8.7 per cent growth rate per annum over the 2001 – 2004 period.

As for Vietnam, the effect of the East Asian economic crisis was also minimal. Again, this might be because Vietnam is still not fully integrated into global economy to absorb external shocks quickly. But there is no doubt that Vietnam is on its way to become an important member of global economy. According to Pham Lan Houng and Pham Thi Vinh (2003), during the 1980s, Vietnam was still a centrally-planned economy. In March 1989, however, Vietnam adopted radical and comprehensive economic reforms aiming at market opening and price liberalization. This had brought about spectacular economic growth throughout the 1980s and most of the 1990s. During the 1990s, the annual GDP growth rate averaged about 7.2 per cent. It was pointed out also that the expansion of foreign trade has been one of the most important factors in Vietnam's economic growth. Vietnam's exports grew 6 times in values (from US2,404 million to US15,027 million) between 1990 and 2001, and the share of Vietnamese exports in Vietnamese GDP has increased from 22.2 per cent in 1990 to 45.6 per cent in 2001. The growth of the economy fell slightly during 1998-99 but it recovered quickly to attain an average growth rate of 7.4 per cent per year between 2002 and 2004. A deeper reform may be needed in the future if Vietnam is to remain competitive in the world market.

3. Patterns of Income Distribution and Its Sources

While the growth of our selected economies mostly exhibits similar patterns of high and sustained growth for the most parts of the 1980s and 1990s, the same thing cannot be said about the patterns of income distributions in these economies. The distribution of income of these eight economies ranges from fairly equal as in the case of Korea to very unequal as in the case of Thailand in the year 2000. In terms of Gini coefficient, the Korean income distribution shows the value of 0.317 as contrast to the value of 0.525 in the case of Thailand. Other countries in our study have their income distributions ranging between these two limits. However, in interpreting these data, it must also be cautioned that Indonesia uses expenditure instead of income data, which account for the relatively low Gini ratio while Singapore's Gini is based on household income from work only.

The mechanisms by which the process of economic growth and development affects the income distribution of the people in a country are varied. People arrive at different income positions through differences in their abilities or capabilities. Those who have better education and skills could do more difficult and more complex jobs, and therefore, can be more highly remunerated. Income can also be generated from different stocks of physical wealth. Therefore, those who have larger and higher quality stocks of assets, could receive greater compensations from their assets. But even with equal physical and human capital or assets, different individuals may receive different compensations depending on different opportunities opened to them. These unequal opportunities in life and work of the people can be seen as a major explanation to income inequalities in many economies and societies. As a major goal of economic development, each country should strive for both an increase in the average income and a more equal distribution of such income.

Table 2 gives a general picture of income distribution of our eight selected East Asian countries in the last 20 years or so. These income distributions represented by Gini coefficients are reported in the eight country papers. Not all the years are reported, normally because of the lack of data for those years, or the difficulties in the use of those data. In what follows, we will look at income distribution of each country in turn.

Starting with China, it appears that the rapid growth in the Chinese economy has resulted in rapid increase in the average income of the Chinese people. As reported in Tian He et al. (2003), per capita annual income of urban households had risen from 343 yuan in 1978 to 6,860 yuan in 2001, an increase of about 20 times, whereas the per capita annual income of rural households had risen from 134 yuan in 1978 to

2,366 yuan in 2001, an increase of almost 18 times. This had caused the incidence of poverty in rural China to fall from 260 million in 1978 to 34 million in 2001.

But this rapid increase in average income and a rapid fall in poverty incidence is accompanied by a rapid increase in income inequality. During these periods, the traditional planned and egalitarian income distribution was broken up. Following Deng's policy of "Let Some Get Rich First", a market-driven distribution system provides more incentives for productivity and creativity, which has significant impacts on changes in inequality of income distribution in China.

The Gini coefficient of the whole country increased from 0.288 in 1981 to 0.349 in 1989 and 0.458 in 2000. In 20 years, the rate of income inequality measured by the increase in Gini coefficient is about 2.35 per cent per annum. Urban-rural income gap in China continues to widen greatly in recent years. The average gap between the urban and rural income is about 2.8 times in 2000, but if the value of social welfare received by urban households is factored in, the gap may increase to 4 times. In the latest available data, the income ratio of urban to rural households for 2003 and 2004 was basically maintained at 3.2: 1 (National Bureau of Statistics of China 2005: 15). According to Tian He et al., dual structure of the economy (that is urban-rural differentiation) and its ramifications, is the root cause of China's income inequality. The unbalanced allocation of FDI has exacerbated this regional income inequality. Policy flaws such as lax taxation systems and monopolisation of some industries also contribute to worsening income inequality in China.

Ravallion and Chen (2005) showed that, in marked contrast with other developing countries, that income inequalities are higher in rural areas, though the rate of increase is higher in the urban areas that will result in China's pattern in income inequality being similar to other developing countries in the near future. However, national inequality is still higher than rural or urban inequality. In contrast to earlier works, Ravallion and Chen took into account the difference in the urban-rural cost of living, as shown in Table 3. Once the difference in the cost of living is adjusted for, the overall Gini ratio was reduced by over five percentage points. Moreover, the national inequality has not always been on the upward trend as inequality fell in the early 1980s and mid-1990s.

Whereas China may exhibit a typical case of Kuznets-type growth where inequality increases in the early period of growth, the situation is different in Korea. China and Korea are two of the fastest economies in East Asia in the last two decades. From one of the poorest countries in the world at the end of the Korean War in the late 50s, Korea has transformed into one of the most advanced industrial economies in the world in about four decades. Between 1980 and 1990, Korea grew at an annual rate of about 8.9 per cent in real term. Although the rate slowed during the 1990s, it was still very high at 5.7 per cent, making the overall growth rate of 7.3 per cent over the last 20 years. This achievement is no less amazing than China's.

As a result of many factors, among which are the equalising land reforms and the economic assistance from the US, early Korean development was characterised by increased income equality as the economy grew. However, it appears that Korean income distribution has become worsened after more than two decades of rapid growth. Some economists blamed this on excessive demand for highly trained labour force during the 1970s that brought about a rapid widening of wage and salary differentials in favour of the highly educated. [4] Overall, Choi (2003) reports that income inequality did not change substantially during the mid-1980s. From the late 1980s to the early 1990s, however, Korean income inequality had reduced and stayed at the low level during the mid-1990s. After the crisis in late 1997, income inequality suddenly increased to reach a peak of 0.348 in 2005. Although the Gini coefficients of Korea had increased as a result of the crisis, the overall level was slightly better than the situation in the late 1970s and early 1980s. A possible reason for the worsening of income distribution is the huge rises in land prices that accrued to a small fraction of the population. During the crisis, production workers and labourers were the worst affected while young and uneducated workers were also more unfavorably affected relative to experienced and educated workers. At the same time, the credit crunch sent mostly small and medium firms into bankruptcy while the large firms were rescued through corporate restructuring (Ragayah 2005: 40-41). The recent trend in rising inequality could be due to the skill-biased technological change and international trade, especially exports that concentrated more on skilled labour-intensive products.

The Singapore case is quite interesting. Since the late 1960s when Singapore began as a nation, the income inequality was already quite high (with Gini coefficient of 0.498). It has since fluctuated around 0.41 to 0.522 in 2005, and in no year, it has gone below 0.4. In fact, there has been a sharp rise in inequality since the crisis. Compared with Korea, the income inequality in Singapore is much more unequal, and this is probably explained by the fact that the wage structures for the skilled workers, especially at the management levels both in the public and private sectors were already high at the beginning of its nationhood, and these wage differentials based on technical skills and professional characters of the employment has kept these income disparities at a high level. Moreover, in recent years (2004 and 2005) the first decile group comprised households with no income earner, resulting in the average household income from work being zero. The Singapore Department of Statistics (2006: 27) also explains that compared with 2000, the average household income from work fell for households in the second and third deciles in 2005. This is partly due the larger number of households with retired persons and no income, and partly caused by the higher unemployment in 2005 than 2000 among the second decile group and lower income from employment in the third decile group. All these factors would help to explain the rising inequality in Singapore.

However, Chia and Chen (2003), has cautioned that this relative large inequality could be the result of the non-inclusion of benefits derived from subsidies on housing, education, health, and other income transfers to the lower income group. The Singapore Department of Statistics (2006: ibid) also emphasizes the same point, and that that the various government financial benefits are weighted towards lower-

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[4] There are some disagreements in the way income data are used in Korea to measure income inequality. The official data, the Urban Families Income and Expenditure Survey (UFIES), only capture wages and salaries of urban workers. This has a tendency to show low income inequality. However, the worsening of income inequality in recent years, especially as a result of the recent financial crisis is unmistakable. Nevertheless, the improved social welfare systems of Korea have helped these workers who are affected by economic crisis to withstand the adverse impacts. Overall, the income inequality in Korea is much better than many other countries in East and Southeast Asia.

income households. Nevertheless, Mukhopadhaya (2000: 71) concluded his study by by arguing that 'the various merit scholarships and bursaries, which are aimed at the brightest pupils, are rather inequality augmenting. This is because the brightest students are those who have a better educational environment and in several cases whose parents are better educated. Therefore, the rich and the middle class families become the beneficiaries of the scholarships scheme'.

Among the ASEAN-4 countries, it was obvious that Thailand and the Philippines are having more unequal income distributions than Malaysia and Indonesia. For Thailand, its relationship between economic growth and income inequality is a typical Kuznets curve type, that is to say income inequality was relatively low at the beginning of the 1960s, and this had increased in step with the growth of the economy. The Thai Gini coefficient reached the highest level in 1992 and began to fall afterward. Unfortunately, the crisis in 1997 had caused the Thai income distribution to worsen. The Gini coefficient had gone up to 0.531 in 1999, almost the same level as the peak period of 1992. The improvement in the average income positions of the Thai people, especially in the lower income groups after economic recovery in the early 2000s had helped reduce this income disparity, and the Gini coefficient fell to 0.505 in 2002.

In the Philippines, the Gini coefficient was already at a high level of 0.49 in 1961. This relatively high level of income inequality was somehow maintained throughout its forty years of development. The crisis of the late 1990s had caused this income inequality as measured by Gini coefficient to go up to 0.51. As Balisacan and Piza (2003) had noted, the absence of high and enduring economic growth, which was the single most important constraint to the pace of poverty reduction, could also contribute to the persistently high income inequality in the Philippines. Policies such as better schooling, agrarian reforms, investment in land quality improvement, removal of price distortions, and so on not only could bring about reduction in poverty but could reduce persistent income inequality as well.

For Malaysia, the high growth rate of the whole economy associated with the intensive growth of the manufacturing sector (with double-digit growth between 1970 and 2000, with the exception of the 1981-85 period) had contributed to drastic fall in poverty level. [5]. This poverty reduction was also attributable to the New Economic Policy of 1970, which also began to have positive effects on the existing increasing trend of income inequality. The Gini ratios rose from 0.513 in 1970 to a peak level of 0.529 in 1976, then began to fall reaching the lowest level of 0.446 at the end of 1990. But from 1990, it started to rise again to reach a peak of 0.470 in 1997. The crisis has managed to bring the Gini ratio down to 0.452 in 1999 but this has risen again to 0.462 in 2004. This is because the bottom 40 per cent of households suffered a decrease in income share from 14.0 per cent in 1999 to 13.5 per cent in 2004 while that of the top 20 per cent of households raised their share from 50.5 per cent to 51.2 per cent (Malaysia 2006: 332).

It seems that the renewed high-growth period in the early 1990s in Malaysia has created a new condition for greater income inequality, but the crisis has dampened this condition resulting in lower Gini ratio. But the trend of rising income inequality

[5] The share of agriculture declined rapidly from 29 per cent in 1970 to 8.5 per cent in 2000 while the share of the industrial sector increased from 31.4 to 40.3 per cent in the same period.

is apparent and this was resumed when the crisis was over. Like in Korea, the credit crunch at the beginning of the crisis period sent many of the small and medium firms into bankruptcy while the large firms were rescued through corporate restructuring. Moreover, the mergers and acquisition exercise that have occurred since then would also be likely to contribute towards the rising inequality. At the same time, Edwards (1997) summarized the arguments of several researchers that as the overwhelming majority of foreign workers are unskilled, they are likely to depress the relative wages of unskilled workers in Malaysia and there is some evidence to support this argument.

One of the most sensitive issues in Malaysia is its ethnic income distribution. Understandably, the income disparities between the Malays and the Chinese were large in the early periods of the NEP, but successive implementation of this state policy brought about equality among ethnic groups. But the rate of this income inequality reduction is still considered very slow. The continuation of state policy in the form of the National Development Policy (NDP) for 1991-2000, and the National Vision Policy of 2001-2010 should see a greater reduction in income inequality in Malaysia due to the increase in government social expenditure.

Finally for Indonesia as the last country in the ASEAN-4, it was mentioned earlier that this was another success story in terms of achievement in economic growth. Since the start of the ‘New Order’ government up to the 1997 economic crisis, Indonesian per capita income had increased by almost four times. The increased income of the average Indonesian has resulted in marked reduction in poverty. From 1976, for example, the number of poor people declined from 54.2 million (about 40 per cent of the total population) to 22.5 million in 1996 (about 11.3 per cent of the total population). Although the incidence of absolute poverty jumped to 23.32 per cent (48.0 million persons) in 1999, this has fallen to 18.2 per cent (38.4 million) in 2002 and 17.42 per cent (37.3 million) in 2003 (BPS 2004: 14).

However, while the improvement in poverty reduction is clear, the improvement in income inequality is less clear. During the 1960s and 1970s, the inequality as measured by the Gini ratio, calculated from the expenditure data, stayed at about the same level around 0.34, and there appeared little difference in the inequality situation within the urban and rural areas. The oil boom and economic boom of the 1974-76 had resulted in the increase in income inequality, both in the urban and rural areas. The inequality trend was reversed in the later years of the 1980s. The decline in income inequality had in fact persisted until mid-1990s but started to move up again from 1996. The available data in 1996, just prior to the economic crisis, shows that the Gini ratio stood at 0.36 overall.

Strange as it may seem, the economic crisis resulted in lowering income inequality. This is so because the Gini ratio is calculated from household per capita consumption expenditure as a unit of measurement. The crisis reduced how much household spends per capita. The reduction is probably relative less among the poorer population than among the less poor population, bringing the gap in the distribution of expenditure closer. Indonesia is the only country in our study cases that used expenditure rather than income as a unit of measurement.

Even allowing possible adjustments in measurement techniques, it could be argued that the problems of income inequality in Indonesia are relatively less serious in this country than, say, Thailand. Still, the government has gone ahead with policy to address continuing concerns for poverty and income inequality. The regional autonomy and fiscal decentralisation policy is a case in point. At the same time, macroeconomic stability and growth have continued to be pursued. Given time, the overall problems should be lessened.

As a new member of ASEAN, Vietnam may still have a long way to go to catch up with the above ASEAN-4, but this catching-up may be shortened by the rapid increase in economic growth of this recent convert to capitalism. As a former socialist economy, the income inequality of Vietnam is traditionally low. As shown by Pham Lan Houng and Pham Thi Vinh (2003), the Gini coefficient of all Vietnam was estimated at 0.33 in 1993, and this had increased to 0.348 in 1998. This increase can be considered small, and one could conclude that the country's growth in the 1990s was sufficiently broad-based. It is believed that this increase in income inequality between 1993 and 1998 was largely due to the widening of the rural-urban income gap. However, a more recent study by the National Center for Social Sciences and Humanities has shown that the Gini coefficient for Vietnam appears to have risen significantly from 0.356 in 1995 to around 0.407 in 2001. If this is so, then, the growth of Vietnam could be considered to follow the traditional Kuznets type.

Table 4 shows the ratio of income share of the top quintile and the bottom quintile of income earners in each country. The change in income inequality through time can be seen from the change in these ratios throughout the years.

4. Policy Responses to Growth and Income Inequalities

Throughout their economic histories, each country has developed different specific policy responses towards different outcomes of growth and income inequalities. In this section, we survey several policies that each of our selected governments had initiated in response to income inequality issues and problems. The list is not exhaustive, but is given with an aim to increase the fuller understanding of the relationship between sustainable economic growth and income inequalities.

China.

- The so-called 'Dual Structure' effects that pitches the rural sector against urban sector in China in terms of resource mobilization, employment generation, industrial location, tax treatments, public services and other government spending have all contributed to disparities between rural and urban areas in China. These 'dual structure' effects must be lessened if the government is to see reduction in rural-urban inequality.
- Urban poverty has increased of late. Urban unemployment has become a serious problem that requires immediate attention.
- Township and Village Enterprises (TVEs) established 1978 could be strengthened to help rural employment. More foreign direct investment should flow there..
- Tax evasion increases inequality in the form of wealth creation through illegal means. The flaw in tax policy needs to be corrected.
- Monopolisation of some industries has worsened income distribution. This form of industrial protection should be abolished.

- The development of private and foreign-funded enterprises has led to increased inequality.
- Income from financial assets has also contributed to the income gap.

In response to the above problems or root-causes of income inequality in China, Tian He et al. recommend the following policy measures:

1. Create more jobs and improve the social security system;
2. Reform the existing tax systems to help distribution problems;
3. Reform wage system to reduce income gap;
4. Adopt more active fiscal policy;
5. Establish a better designed social safety net system;
6. Increase vocational training as attainment of vocational education is an important measure to reduce income gap;
7. Promote more competition among industries.

Indonesia

- Armida et al. (2003) have emphasized that macroeconomic stability and growth are one of the most important factors contributing to poverty reduction in Indonesia during the 1985-1995 period and after the 1999-2001 period. The importance of these factors cannot be overemphasized.
- At microeconomic levels, fair economic and business environment is a pre-requisite for competition policy.
- To empower the poor, it is necessary to have policies that would enable them to have access to factors of production such as labour, land and capital.
- Targeting the poor for the effective and efficient use of government expenditure will ensure that public scarce resources are used correctly to reduce poverty and improve income inequality.
- Education and health are two pillars in human resources development.
- Different levels of assistance could be considered for the ‘transient poor’ and the ‘ultra poor’ in Indonesia.

Korea

- The level of educational attainment of head of household has important bearing on the income of the family. The government has been successful in the past to increase this human capital. But as rigidities in wage distribution in the second half of the 1990s had led to widened income inequality, this part of policy responses needs to be reemphasized.
- As pointed out by Choi (2003), household heads’ real income in the least educated group declined in all income groups, and the inequality rise was attributed to the loss of jobs opportunities of these lowly educated heads. Appropriate policies are called for in this area.

Malaysia

- During the NEP period, rural development was one of the most important policy responses to poverty alleviation as well as inequality reduction. Various aspects of rural development policies and measures could be further analysed for future use.

- Ragayah (2003) points out that two of the strategies employed to tackle poverty and restructure society were the provision of better and more efficient services in education and the accelerated creation of productive employment opportunities in the secondary and tertiary sectors. These were the central elements in the strategies for attacking urban poverty as well as restructuring of employment in various sectors of the economy and at all levels of occupations.
- Industrialisation and its resultant structural change helped reduce poverty as well as improve income distribution. The restructuring of society that favoured the Bumiputeras also contributed to lowering inequality.
- Other important policies and programs include provision of basic services and infrastructure, improved tax structure and incidence, and the support to the non-government organizations (NGOs).

Philippines

- Population growth rate which is relatively very high by Asian standard also makes it difficult for the increased economic output to be shared among growing number of population.
- While macroeconomic growth in the Philippine economy was good in the 50s and 60s, there was little structural change, unlike the other SE Asian neighbours, Indonesia, Malaysia and Thailand. Even in the 1990s, the share of agriculture to GDP in the Philippines was as high as 21.6 per cent in 1991, with the industrial share only 33.8 per cent in the same year. This industrial share actually declined to 31.5 per cent in 2001.
- Within this generally low economic growth, the distribution of income is also not doing well, as the overall Gini is shown to be quite high. It was further discovered that the relatively high aggregate income inequality in the Philippines has come mainly from differences *within* geographic boundaries (regions, provinces, urban or rural areas), economic sectors, or demographic subgroups, not from differences in mean incomes *between* these factors.
- It could be argued that this inequality problem could be alleviated hugely by larger poverty reduction through larger economic growth.

Singapore

- As pointed out in Chia (2003), educational attainment is an important factor in poverty reduction and the improvement in income inequality. As workers with low and unmarketable skills are likely to be losers in the new economy where the demand for skills will intensify and structural unemployment is likely to become more prevalent, the need for their higher and extended education becomes paramount.
- Changes in the tax structure in the past decade or so have reduced the equalizing effect of Singapore’s taxes. These changes need to be re-evaluated.
- Subsidisation of public housing, education, and health particularly to the low income group needs to be assessed as to its monetary value to the income positions of the recipients.

Thailand

- Adis (2003) believes that the lack of equal economic opportunity or an ill economic opportunity is a major cause of income inequality in Thailand. For this reason, it is believed that creating an equal economic opportunity is therefore vital to any sound public policy on income inequality. He suggests the corrections on the following five areas that may lead to an ill income opportunity in Thailand: the lack of redistributive taxes, the disparities in rural-urban development, the lack of competition, unequal educational opportunity among rural-urban children, and the existence of imperfect capital markets.

- The unfair subsidy of higher education financing is given as an example of how government policy could lead to greater inequality rather than less inequality.

Vietnam

- According to Pham Lan Houng and Pham Thi Vinh (2003), public investment policy in Vietnam tend to concentrate on large manufacturing industries that are capital-intensive and infant industry types that are likely to fail to compete internationally. These industries take resources away from industries conducive to comparative advantages, and are likely to lead to misallocation and waste of scarce resources. Agriculture in Vietnam receives substantially less public expenditure support than its contribution to GDP.
- The investment policy also fails to relieve the adverse outcomes of the differences in natural endowments, geographical location, and other differences in industrial structure. It has even exaggerated these adverse outcomes by establishing overwhelming advantages for investment in the largest manufacturing centers of the country.
- Shortage of capital, inadequate basic agricultural services, poor rural infrastructure, low level of human capital, and poor access to market information all lead to the neglect of the rural areas.

5. Summary and Concluding Remark

In this paper we have attempted to find the relationship between rapid economic growth and income inequality in eight selected countries in East Asia. These eight East Asian countries are China, Indonesia, Korea, Malaysia, Philippines, Singapore, Thailand and Vietnam. Most of these countries are known from their economic records in the past several decades to be high-growth countries. And these high growths have been brought about by market-oriented economic policies including price liberalization, free competition, and efficient use of resources. This market approach necessary brings about macroeconomic stability that ensures that the process of growth is satisfactory and sustainable. To a variable degree, the growth has generated different increases in average income of the people, which further brings about the fall in the incidence of poverty. However, income distribution associated with these different patterns of growth differs from one country to another, making the relationship between economic growth and income inequality non-uniform. Some may achieve the Kuznets type growth, that is, income inequality increases as the country grows, but some may have the opposite effects. This paper compares different patterns of growths and income inequalities, and discusses the policy responses and implications from such relationship.

It may appear that although market-oriented to economic development has helped each of these economies achieve high economic growth, there is a danger in not giving due consideration and attention to the worsening of income distribution which may accompany such rapid economic growth. It is possible to put our country study cases into one of the four boxes, namely high growth, high inequality; high growth, low inequality; low growth, high inequality; and low growth, low inequality. Each will have unique, country-specific ways to deal with the issues and problems in its own country such that it may be difficult to draw generalizations or conclusions from our comparative study. This should be expected. However, we could learn from these diverse systems and phenomena, and the knowledge and understanding gained from such comparison could help us design a better and more appropriate policy that can be more effectively used to combat poverty and income inequality in East Asia.

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Table 1

Size and Growth of National Economies, 2000

Country	GNP per capita	PPP GNP per capita	PPP per capita as % of Japan	PPP GNP per capita rank	Per capita GDP Growth rate 1999-2000	GDP growth rates, 1980-1990	GDP growth rates, 1990-2000	GDP growth rates, 1980-2000
Korea	8910	17300	63.9	2	7.8	8.9	5.7	7.3
Singapore	24740	24910	92.0	1	8.1	6.7	8.0	7.4
Indonesia	570	2830	10.5	7	3.1	6.1	4.2	5.2
Malaysia	3380	8330	30.8	3	5.7	5.3	7.0	6.2
Philippines	1040	4220	15.6	5	2.1	1.0	3.3	2.2
Thailand	2000	6320	23.3	4	3.5	7.6	4.2	5.9
China	840	3920	14.5	6	7.2	10.1	10.3	10.2
Vietnam	390	2000	7.4	8	4.1	4.6	8.1	6.4
Memo:								
Japan	35620	27080	100.0					

Source: World Bank, World Development Indicators 2002, Washington, DC, 2002; and World Development Report, 2002

Table 2

Gini Ratios for Household Income in Eight East Asian Economies

Year	Asian NIEs		(New)			ASEAN-4		
	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	
1969								
1970	0.332				0.506			
					(0.502)			
1971						0.480		
						(0.478)		
1972								
1973		(0.46)						
1974		(0.45)						
1975		0.448					0.451	
		(0.45)					(0.426)	
1976	0.391	(0.44)		0.34	(0.529)			
				(0.492)				
1977		(0.46)						
1978		(0.42)						
1979		0.424			0.493			
		(0.42)			(0.493)			
1980	0.389	(0.41)		0.34				
1981		0.443	0.288	0.33	0.443		0.473	
		(0.44)					(0.453)	
1982	0.357	0.465			0.465			
		(0.46)						

Table 2

Gini Ratios for Household Income in Eight East Asian Economies

Year	Asian NIEs		(New)			ASEAN-4		
	Korea	Singapore[a]	China	Indonesia[b]	Malaysia	Philippines	Thailand	Vietnam
1983		(0.48)						
1984		0.474	0.297	0.33	0.474			
		(0.47)			(0.480)			
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			0.330
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		0.470	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						

Note: 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.

Sources: Figure not in parentheses are from the original Rao's article. Figures in parentheses are new series derived from the following sources: Hong Kong, T. B. Lin (1994); Korea, Leipziger *et al.* (1992); Singapore, Rao (1993); Taiwan, C. Y. Lin (1994); 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 et al. (2003); Indonesia, Alisjahbana et al. (2003); BPS for 2001-2002; Malaysia, Rogayah (2003); Philippines, Balisacan and Piza (2003); Thailand, Somchai and Jiraporn (2001).

Table 3

China: Gini Indices of Income Inequality

			National	
	Rural	Urban	Without adjustment for COL difference	With adjustment for COL difference
1980	24.99	n.a.	n.a.	n.a.
1981	24.73	18.46	30.95	27.98
1982	24.40	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	26.80	17.06	28.95	26.45
1986	28.48	20.66	32.41	29.20
1987	28.53	20.20	32.38	28.90
1988	29.71	21.08	33.01	29.50
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	33.10
1992	32.03	24.18	39.01	34.24
1993	33.70	27.18	41.95	36.74
1994	34.00	29.22	43.31	37.60
1995	33.98	28.27	41.50	36.53
1996	32.98	28.52	39.75	35.05
1997	33.12	29.35	39.78	35.00
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	n.a.	32.65	n.a.	n.a.

Source: Ravallion and Chen (2005)

Table 4

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	22.0	43.0	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	16.0	21.5	41.3	4.7
	1990	8.7	12.1	15.9	21.1	42.3	4.9
	1999	9.0	12.5	16.1	21.3	41.1	4.6
Malaysia	1973	3.5	7.7	12.4	20.3	56.1	16.0
	1987	4.6	9.3	13.9	21.2	51.2	11.1
	1989	4.6	8.3	13.0	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	n.a.
	2002		13.5		35.2	51.3	n.a.
	2004		13.5		35.3	51.2	n.a.
Philippines	1961	4.2	7.9	12.1	19.3	56.4	13.4
	1965	3.5	8.0	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	1975-76	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	14.0
	1992	4.0	7.1	11.1	18.8	59.1	14.8
	1998	4.2	7.7	11.9	19.8	56.3	13.4

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