

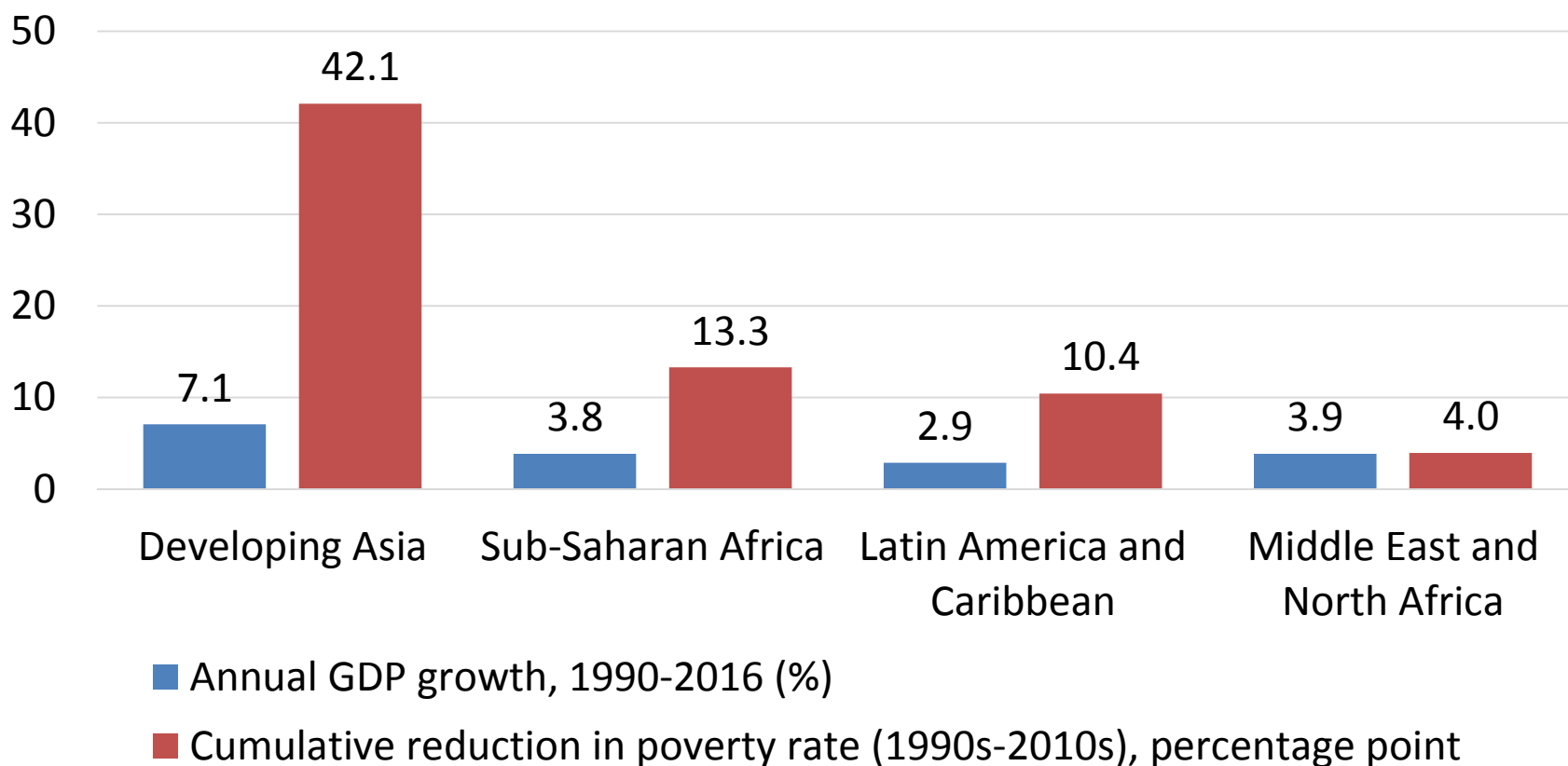
Growth, poverty reduction, and inequality in developing Asia

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Asia's high growth has led to large reductions in poverty ...

GDP growth and poverty reduction*



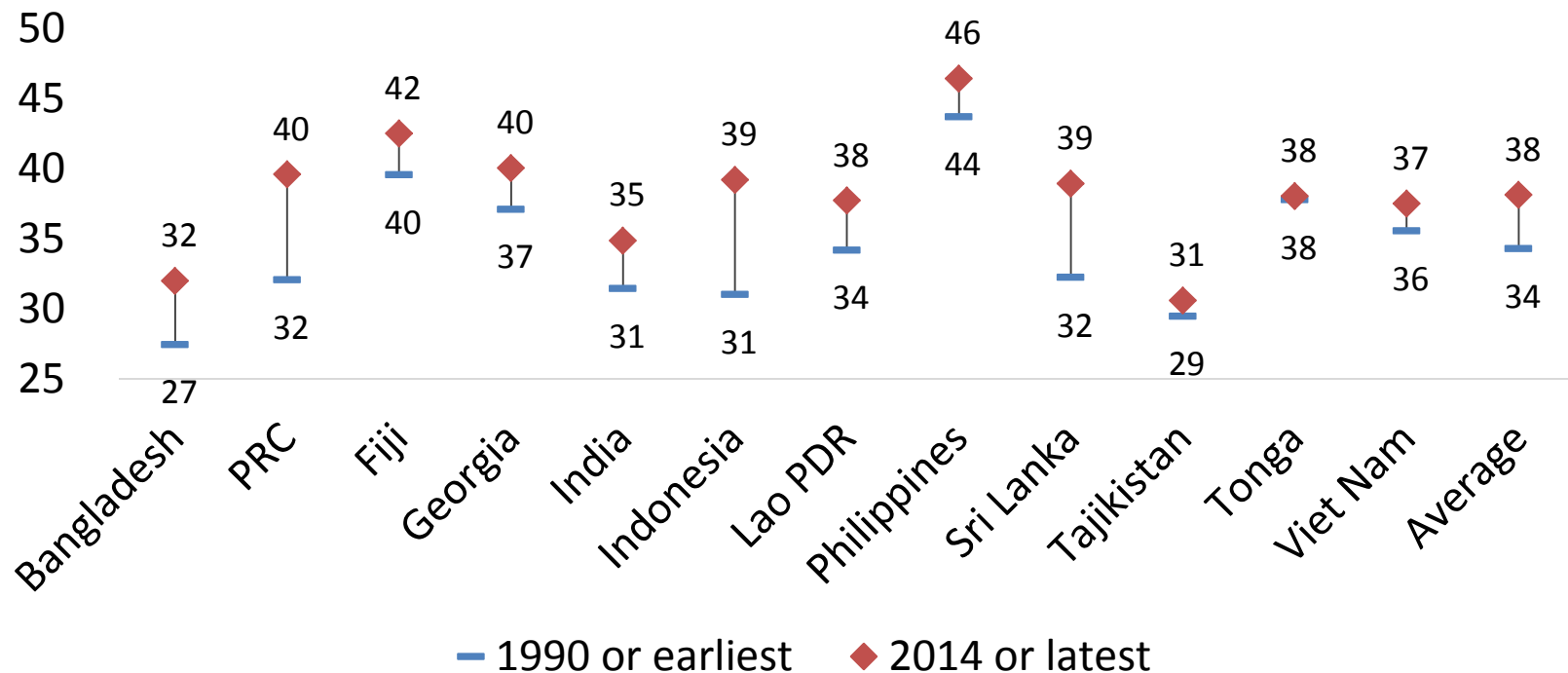
*At the poverty line of \$1.9 at 2011 PPP.

Source: ADB staff estimates based on the World Development Indicators of the World Bank.

...but has been accompanied by rising income inequality

Asia-wide Gini increased to **45** in the 2010s compared to **40** in the 1990s, contrasting with “growth with equity” in the 1960s and 1970s

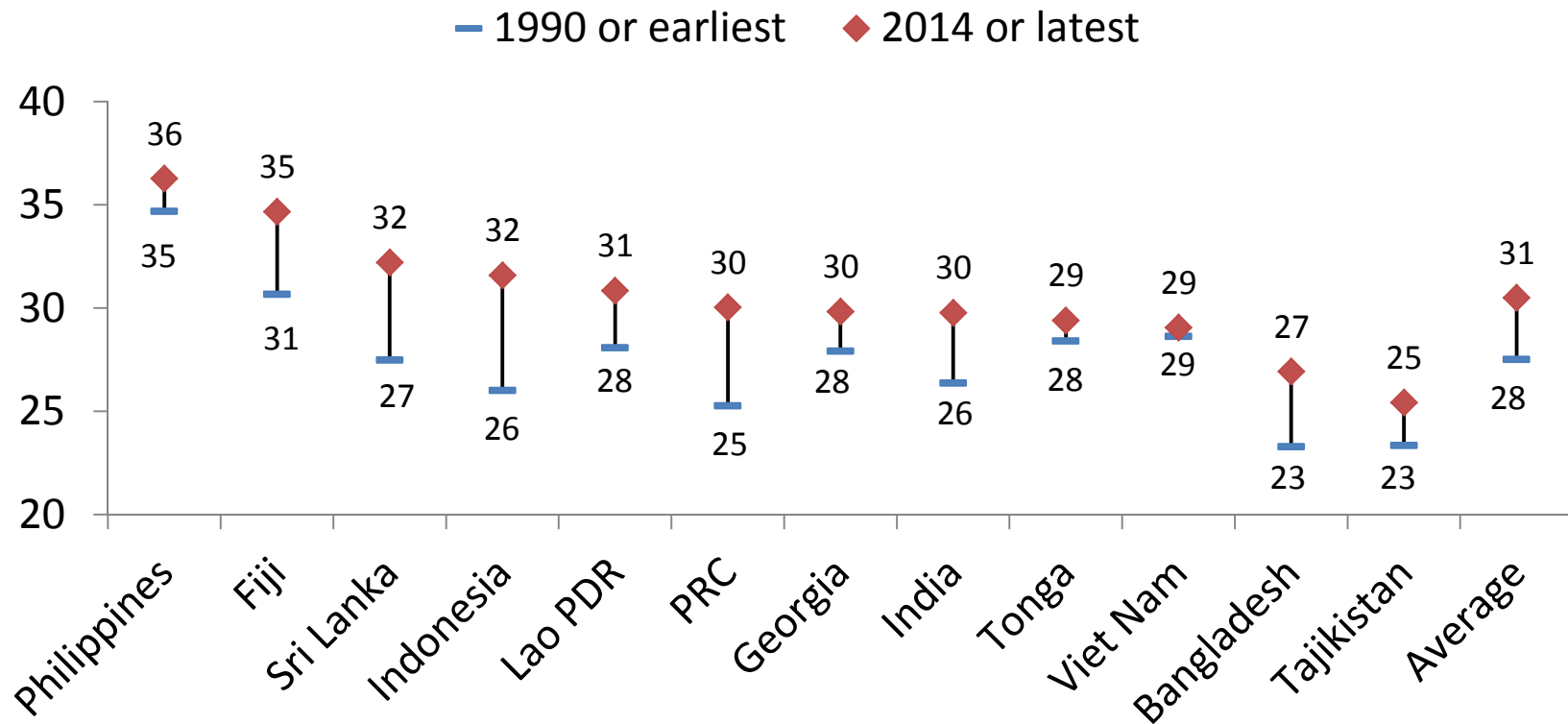
Gini coefficient of per capita household consumption expenditure, selected Asian economies



Source: ADB staff estimates based on World Bank PovCal data.

...and increasing top income share

Consumption expenditure share of the richest 10%, selected developing Asian economies



Source: ADB staff estimates based on World Bank PovCal data.

Globally, Asia's inequality is lower, but its rise over time is a concern

	Median Gini	Maximum Gini	Minimum Gini
Developing Asia (consumption)	37.0	50.9	27.8
OECD (income)	30.0	49.6	23.0
Latin America & Caribbean (income)	52.3	59.5	44.7
Middle East & North Africa (consumption)	36.8	41.4	29.8
Sub-Saharan Africa (consumption)	42.8	65.8	30.0

Source: World Bank PovCal data.

Why does inequality matter?

- Rising inequality slows down the pace of poverty reduction
 - If inequality had been stable, additional 240 million Asians (6.5% of Asia's population) would have been lifted out of poverty
- Inequality can weaken the basis of growth by affecting human capital, social cohesion, middle class, and quality of governance
 - Empirical studies show lower inequality is associated with longer growth duration. A 10-percentile decrease in inequality increases the expected length of a growth spell by 50% (IMF 2011)

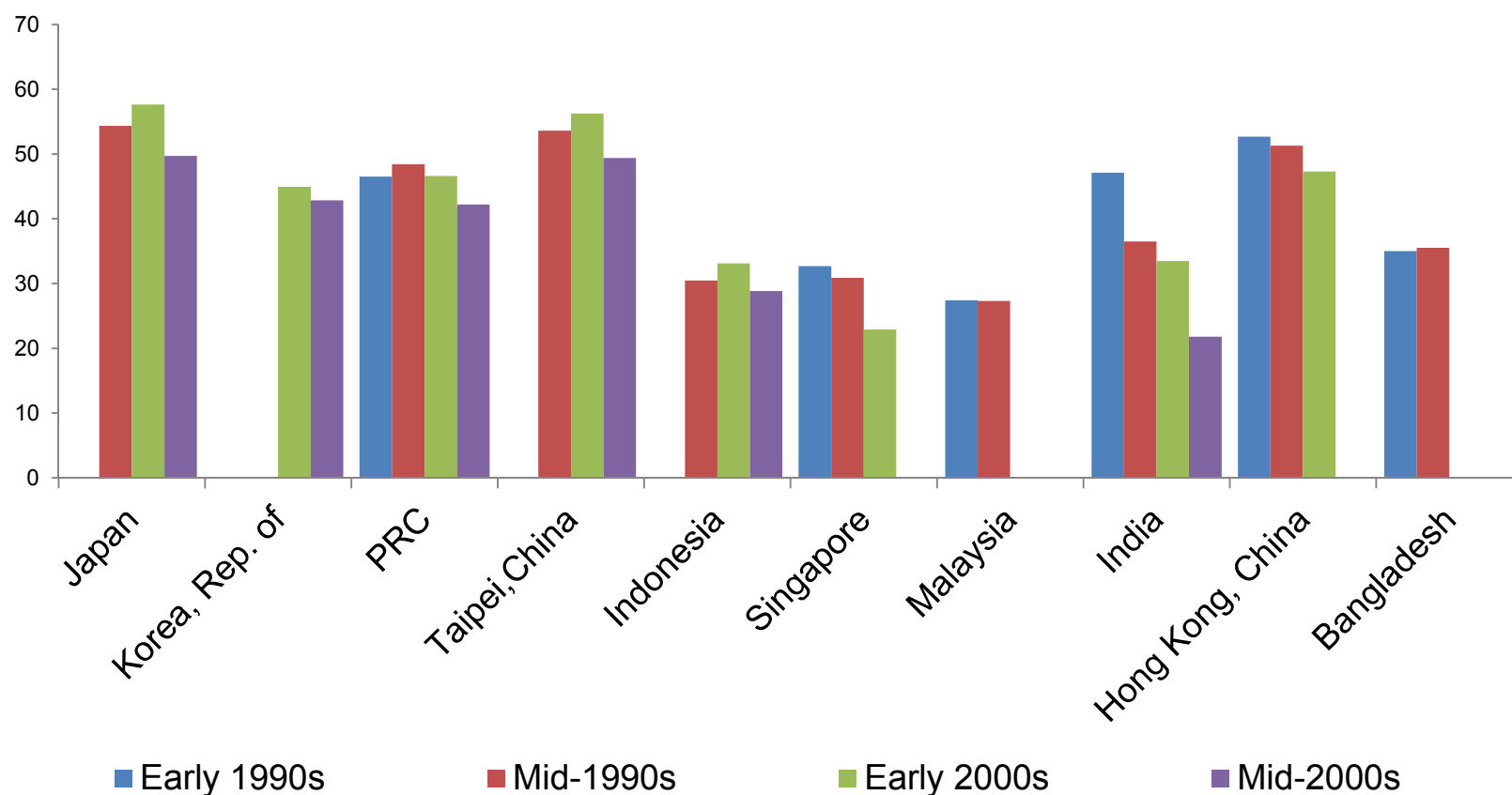


Why has inequality risen?

- Technological progress, globalization, and market deregulation have led to rapid growth in Asia, but working together they have favored:
 - capital over labor
 - skilled over unskilled workers
 - cities/coastal regions over rural/inland areas.
- These have been compounded by unequal access to opportunity due to social exclusion.
- Rising income inequality increases wealth inequality, which in turn contributes to rising income inequality.

Share of labor income declined while share of capital income increased

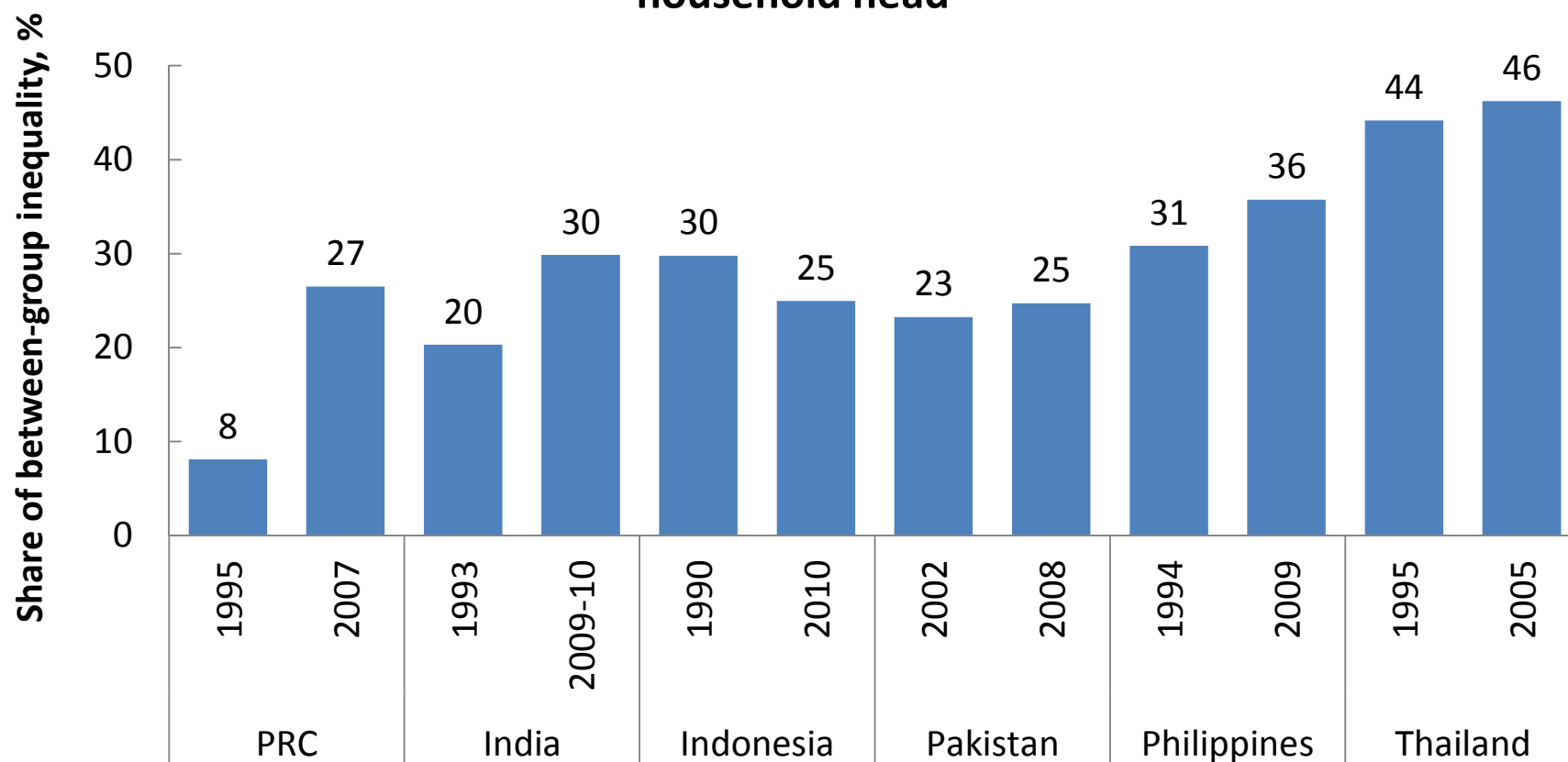
Labor Income Share *Manufacturing*



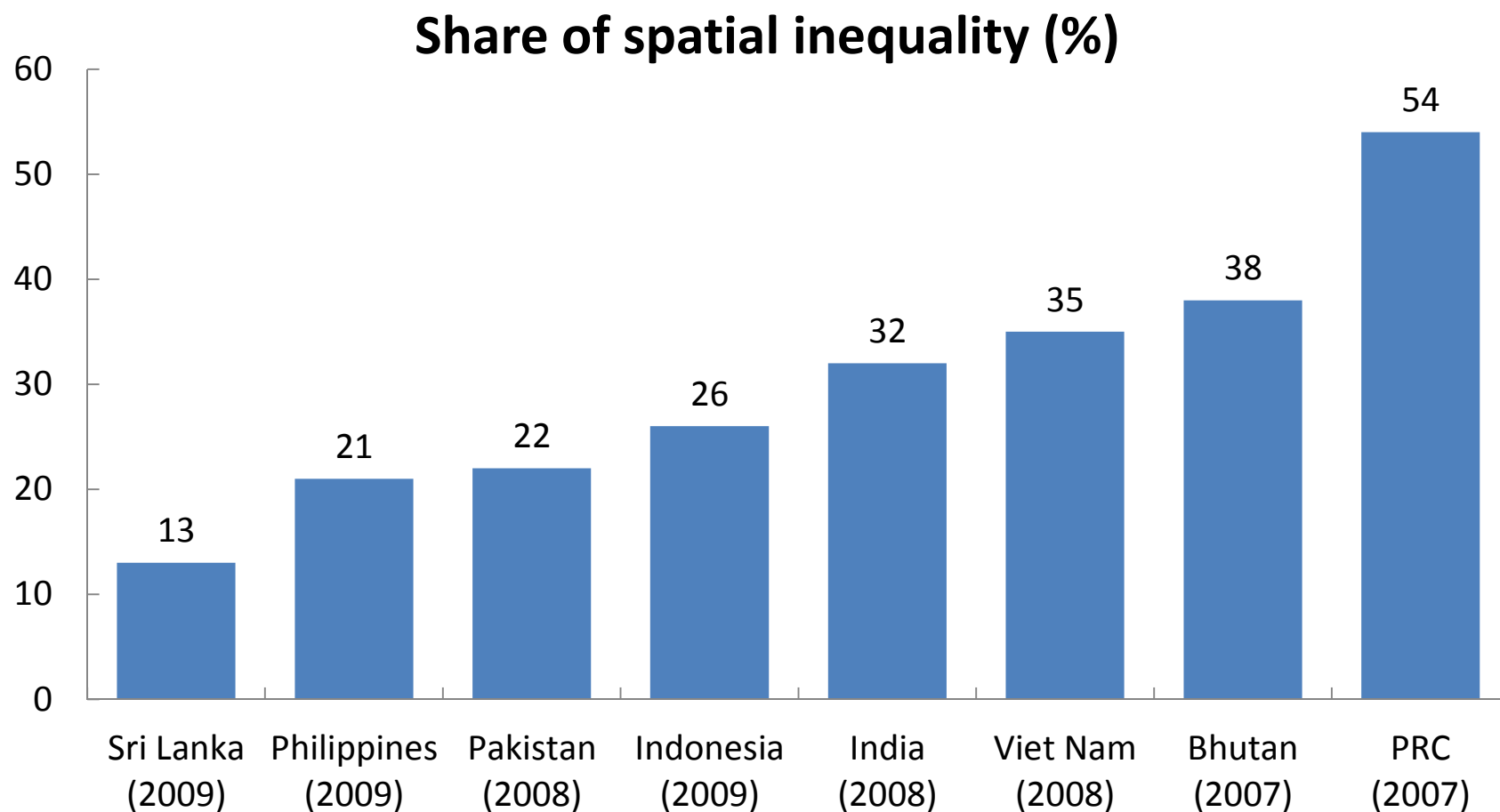
Source: Asian Development Outlook 2012, ADB

Skill premium has risen; education inequality accounts for 25–45% of total inequality

Income inequality decomposition by educational attainment of household head

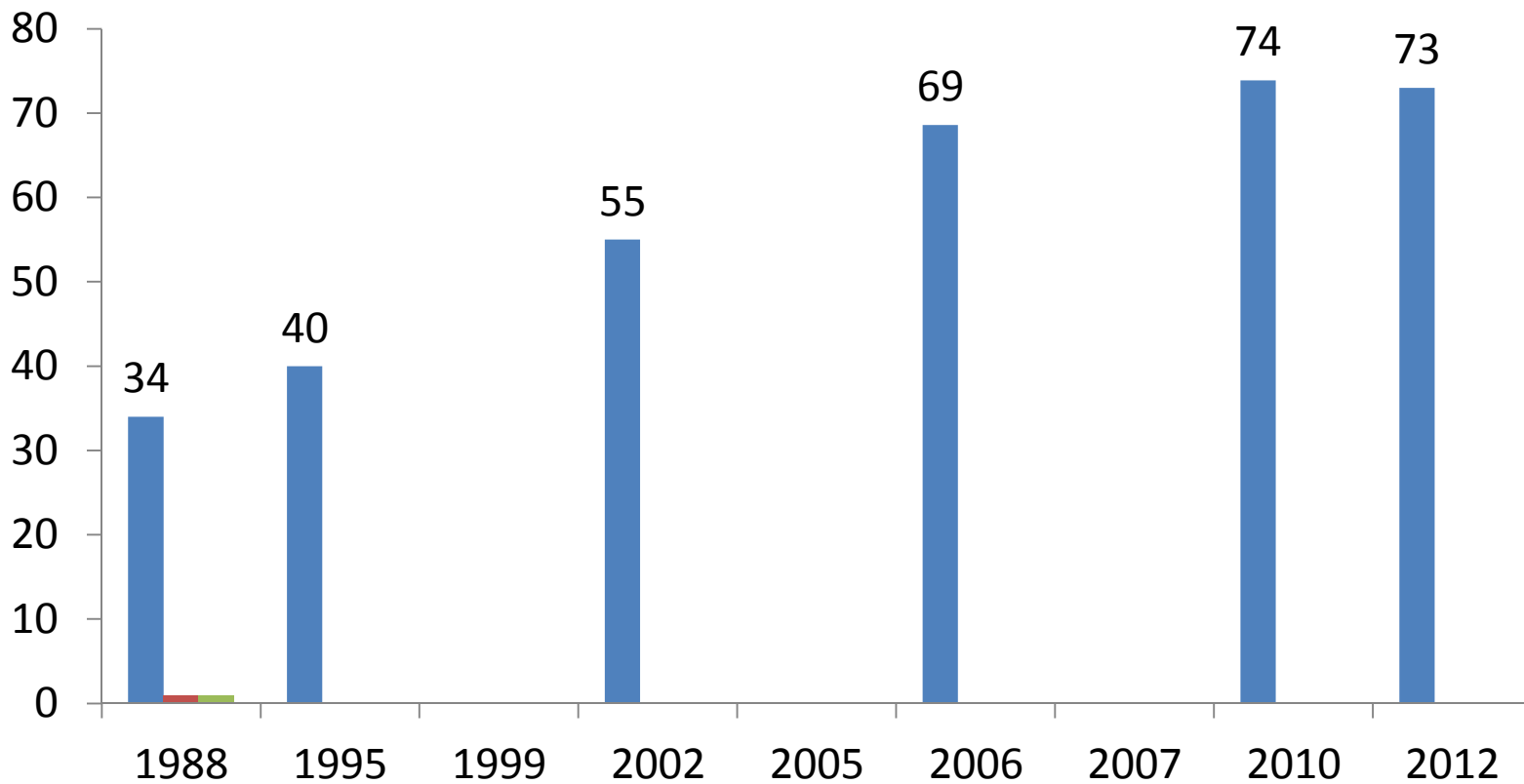


Spatial inequality—urban-rural and inter-province combined—accounts for a large share of total inequality



Source: Asian Development Outlook 2012, ADB

In China, the wealth Gini coefficient doubled during 1988–2012



Source: Li, Wan and Xie (2014)

How to respond to rising inequality?

- The three drivers of growth should be promoted.
- Governments can address rising inequality through
 - Making growth more employment-friendly
 - Investing in human capital and skills development
 - Interventions such as infrastructure investment to reduce spatial inequality
 - Strengthening labor market institutions, but without imposing excessive costs for businesses
 - Strengthening social protection to help workers better cope with transitory livelihood shocks
 - Efficient fiscal policy for greater income redistribution
 - Governance reform to equalize opportunities
 - The exact policy actions needed depend on country-specific circumstances



Move toward inclusive growth

- Inclusive growth means everyone can participate in and benefit from the growth process.
- Inclusive growth makes a distinction between
 - Inequality due to differences in individual efforts, and
 - Inequality due to differences in individual circumstance (ethnic background, gender, parental education, location, etc.), that is, inequality in opportunity.
- Reducing or eliminating inequality in opportunity is at the heart of an inclusive growth strategy:
 - Inclusive growth is “growth coupled with equality of opportunities”.



Figure 1 Policy Pillars of Inclusive Growth



Source: Adapted from Zhuang (2010).

Thank you!

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