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Inequality in the era of the 2030 Agenda for Sustainable Development

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HE Madame Executive Secretary of UNESCAP,

Excellencies,

Distinguished Guests,

Ladies and Gentlemen,

It is my great pleasure to be invited to speak to you on inequality at this auspicious 74th Session of the ESCAP’s High-level Ministerial Segment. I would like to thank the UNESCAP for their kind invitation.

Inequality is one of the greatest challenges of our time. Both developed as well as developing countries face inequality as a major policy challenge today.

Inequality can arise from a broad range of political, social, economic, environmental and technological factors. In most instances, inequality is characterized by the lack of access to resources, including social services such as education and health as well as economic resources.
With the rapid development of technology and on the doorstep to the fourth industrial revolution, the technological transformation would begin to increasingly impact on income distribution within and among nations.

Ladies and Gentlemen,

Sustainable Development Goal 10 is specific on reducing inequality within and among nations. However, that goal has a cross-cutting issue, having strong links to other key SDGs such as poverty, hunger, health, education, empowering women, water and sanitation, inclusive growth and even climate change.

Overall, the Agenda 2030 is a ground-breaking push to tackle inequality as it addresses inequality as a standalone goal and a cross-cutting issue, important to the achievement of all 17 SDGs.
At the global level, SDG 10 emphasizes the importance of improving regulation and monitoring of global financial markets and institutions as financial crises have been key drivers of inequality globally.

In Asia, according to the ADB study, after 50 years of progress since the mid-1960s, millions of people had received no more than modest gains. In many Asian countries, the Gini-coefficient had been rising, implying societies were becoming more unequal. For example, between the mid-1990s and the late 2000s, the Gini-coefficient for Asia as a whole increased from .39 to .46 or by 1.4% a year.

Inequality can be significant sources of political and social instability and conflict. This can derail political processes and lead to the exclusion of certain social groups.

Inequality is also an important moral issue as it can significantly alter the degree of people’s individual
progress in society as well as the society as a whole. Therefore, the policy-wise solution to address inequality need to tackle the drivers of inequalities including those in the social, economic, political, environmental and technological domains.

Universal access to public services, irrespective of age, gender, disability, race, ethnicity, religion or economic or other status, is a key component of effectively tackling inequality.

Ladies and Gentlemen,

Coming from a country that used to be one of the world’s poorest until the early part of the 1960s, heavily relying on international aid and foreign assistance but now joined the big league of industrial nations, I think there are three lessons to be learnt from Korea’s experience in inequality.
First, the high growth matters in income distribution in developing countries, albeit with a set of proper policies. Korea’s income distribution improved during the period of fast economic growth until the Asian financial crisis of 1997.

Second, the international financial crisis proves to be a critical driver in causing the increase of inequality. The displacement in the distribution of income in Korea, i.e. a sudden shift toward inequality, incurred twice after the Asian financial crisis of 1997 and the international financial crisis of 2008 after the collapse of the Lehman Brothers.

Third, an aid recipient country can turn into an aid donor country, contributing to reduce income inequality among nations. There is no reason why once a developing, aid recipient country cannot succeed to transform itself to a donor country.
Korea became a member of the OECD in 1997 and joined Development Assistance Committee (DAC) in 2010, transforming itself from an aid-receiving developing country to a donor country. Korea is the first developing country that transformed itself from an aid receiver to a donor.

In my capacity as Prime Minister, I was personally able to play a crucial role in planning to increase Korea’s ODA during the long-term budget strategy session in the summer of 2008 so that we could triple ODA by 2015. The ODA amounting to US $696 million in 2007 reached US$1,965 in 2016.

I would like to see several more developing countries cross the barrier between receiver and donor, contributing to reduce the global inequality among nations.
Ladies and Gentlemen,

While the speed and breath of Korea’s economic transformation are often recognized, the success of Korea’s development model also lied in its foundation on its concurrent focus on social inclusiveness.

The point is that economic growth is the key to unlocking human potential and development; but it must be accompanied by serious measure to distribute the impact of income and wealth.

Korea also introduced a comprehensive medical insurance system in 1977. For example, the New Community (Saemaul) Movement launched in Korea in the 1970s sought to rectify the growing difference in income distribution and living standards between the stagnant rural and rapidly industrializing urban cities.

As a result of such conscious efforts, Korea had been free of fundamental social exclusion resulting from the large-scale poverty, entrenched income inequalities, unequal access to education, or deep-
seated gender discrimination. Korea had become a model for fast growing developing economy with the income inequality under control.

Thus, it is generally accepted that Korea’s income distribution continued to improve during the rapid growth of its economy between 1960s and 1980s. For example, Korea’s income distribution remained fairly equal with Gini-coefficient of the urban household remaining around .24-.25 until the financial crisis of 1997. It then increased to .30 in 1999. It again shot to .32 in 2009, the highest Gini-coefficient ever registered until then.

In this respect, it is important to emphasize the crucial role of international financial institutions in correctly regulating and stabilizing the global financial system. As it is the developing countries that are particularly vulnerable to the external shocks arising from international financial crisis with negative spillovers of inequality, there is one more important
reason that a properly-managed regulatory mechanism should be in place in order to protect the developing countries from the series of external financial shocks.

Ladies and Gentlemen,

Before closing, I would like to say a few words on the impact of globalization on income equality/inequality.

It is well known that at the time of the Asian financial crisis, Korea was imposed by the IMF with very severe conditions for its liquidity support. The gist of advice was more globalization, that is, to completely liberalize the financial market and abide by globalized financial standards.

One might recall that at the time of Asian financial crisis, there were two totally different policy options; one taken by Korea and the other by Malaysia. To comply with the request from the IMF, Korea adopted...
an open, liberal policy to deal with the financial crisis. Malaysia, on the other hand, experimented with the diametrically opposed different policy option, that is a closed policy in dealing with Asian financial crisis.

Korea represented the views of the neo-liberals whose argument is that globalization leads to a high level of economic development and that this will ultimately provide a sounder basis for economic growth, political democracy and human rights.

On the other hand, Malaysia represented the views of structuralists or anti-liberals who argued that globalization would intensify the foreigners’ penetration of trade and capital in peripheral economies, leading to exploitation of human, capital and natural resources. They argued that this would lead to further inequality of income and wealth with and among nations.
It is ironic that both Korea and Malaysia recovered from the financial crisis and rejoined the mainstream of the world economy in due course. This leads us to think aloud how we should respond to the stringent request of international institutions that govern globalization.

To find out the distribution impact of the recovery policy, I checked with the time series of Gini coefficient in Korea and Malaysia respectively during the period of Asian financial crisis. I found out somewhat puzzling fact.

As I have already said, Korea’s Gini coefficient in 1997 was .26 and .30 in 1999. Thus, Korea’s income distribution is shown to have deteriorated during the Asian financial crisis.

Malaysia’s Gini coefficient was .49 in 1997 but was .46 in 2004. (unfortunately there is no official OECD statistics of comparable Malaysian Gini coefficient in
1999). On the whole, it shows amazingly that Malaysia’s income distribution improved during and after the Asian financial crisis, or at least it has not deteriorated as in the case of Korea.

What does this mean?

These simple statistics seem to show that liberalization/globalization policy worked against Korea’s income distribution while Malaysia’s non-liberal, anti-globalization policy improved or at least, did not work against its income distribution. This may need further research and investigation.

However, at this critical juncture in the world economic history, the beneficial impact of globalization in recent years should not be discounted in any way but at the same time, the dividing forces of globalization, the major concern particularly of the underprivileged nations and individuals, should be seriously taken into account. This is how globalization
can remain as a force for good.

Thank you.