

EXECUTIVE SUMMARY

“A rising tide lifts all boats” they say. It is a neat aphorism – build up the economic engine, and everyone will benefit. But a closer inspection of facts and historical evidence across economies reveals large variations in the tidal range – some boats, probably yachts, have indeed been lifted but others languish on the mudflats. While economic growth and productivity increases bring great rewards, they have by no means been evenly distributed – and this comes at a significant cost for people, prosperity and the planet.

Inequality stifles economic growth by lowering growth rates and shortening the duration of growth spells. It hampers the effectiveness of poverty reduction by excluding large segments of the population from development gains. Inequality also undermines social cohesion and stability by weakening social bonds and public trust in institutions, which can raise social and political tensions and even lead to radicalization and crime. Inequality also negatively impacts the environment. When ownership of land and natural resources is concentrated in the hands of a few, it provides unchecked freedom to cut, mine and farm lands in ecologically unsustainable ways – often with a disproportional impact on the poor and marginalized.

Understanding the drivers and consequences of inequality and how policies can help in shaping a more inclusive, prosperous and sustainable future across the Asia-Pacific region is the purpose of this report. Written against the backdrop of the 2030 Agenda for Sustainable Development and its pledge to “leave no one behind”, the report presents a convincing case for reducing inequality, drawing on a wide range of data sources, backed up with evidence-based studies. It does so by exploring inequality in three interdependent and mutually reinforcing forms: (i) inequality of outcome (disparities in material dimensions of income and wealth); (ii) inequality of opportunity (disparities in access to basic opportunities and services, such as education, health care and clean energy); and (iii) inequality of impact (disparities between groups with shared circumstances and the asymmetric impact of external shocks, primarily in relation to the environment). It also discusses how frontier technologies and the incipient Fourth Industrial Revolution may affect inequality trajectories – now and in the future.

Inequality in the Asia-Pacific region

Since the early 1990s, the Asia-Pacific region has experienced a tremendous socioeconomic transformation, facilitated by strong and sustained economic growth. Unfortunately, the gains from this remarkable performance have not always benefited those most in need. For example, nearly half of all people in Asia and the Pacific still rely on traditional and inefficient fuels for cooking and heating. As a result, many countries in the region have experienced a widening of existing inequalities, accompanied by environmental degradation.

Income and wealth inequalities are on the rise ...

The region’s combined income inequality, measured by the Gini coefficient, has increased by over 5 percentage points in the last 20 years. This goes contrary to almost all other regions.

Income inequalities grew in almost 40 per cent of all countries. China, Indonesia, Papua New Guinea and Singapore experienced sharp increases. In countries where inequalities fell, they often did so from relatively higher levels. For instance, inequality decreased sharply in Azerbaijan, Kyrgyzstan, the Maldives and Georgia. By subregion, the average population-weighted Gini coefficient increased the most in East and North-East Asia.

Steep increases in the incomes of the richest have often coincided with an increased concentration of wealth. For instance, the wealth share held by the top 1 per cent doubled in both China and the Russian Federation

between 1995 and 2015, from 15 to 30 per cent and from 22 to 43 per cent respectively. In 2017, the net worth of the region's billionaires was more than seven times the combined GDP of the region's least developed countries (LDCs).

... access to basic opportunities are unevenly shared ...

Income and wealth inequalities are strongly linked to other dimensions of development, with obvious impact on opportunities such as access to education, health care, finance, clean energy and water and sanitation. While some level of income inequality is both acceptable and expected to reflect differing levels of individual effort and talent, no inequality in access to opportunities should be permissible in countries aspiring to the commitments and implementation of the 2030 Agenda.

Yet, a comparison of country-specific dissimilarity indices (D-indices) for 13 core opportunities and one multiple deprivation indicator across 21 countries reveals large inequalities, particularly in educational attainment, ownership of a bank account, access to clean fuels and basic sanitation. The highest overall D-index is found in South and South-West Asian countries, followed closely by South-East Asian nations.

The countries that stand out as particularly unequal with respect to core opportunities are Afghanistan, Bangladesh, Cambodia, Lao People's Democratic Republic, Myanmar, Timor-Leste and Vanuatu. Conversely, Armenia, Kazakhstan, Kyrgyzstan, the Maldives, Tajikistan, Thailand and Turkmenistan, have on average significantly lower inequalities in access to the same opportunities.

... and environmental degradation and disasters are impacting the poorest

Environmental degradation is closely linked to inequality and low-income countries of the region are more exposed to environmental degradation. Compared with 1990, exposure to air pollution is on the rise in the region, with the sharpest increases observed in Bangladesh, Bhutan, China, India, Mongolia and Nepal.

Air pollution is estimated to claim over 4 million lives per year, mainly in developing countries in the region. In addition to the detrimental impact this has on families and communities, it also undermines economic performance, causing a reduction of around 0.8 per cent of GDP in India and Pakistan, up to 1.5 per cent in Afghanistan. Hence, reducing pollution is critical for reducing inequalities both within and among countries.

Poor and disadvantaged groups are also disproportionately impacted by pollution. As a result, deaths from cardiorespiratory diseases are more likely among residents with a lower level of education.

Natural disasters also cause disproportionately greater impacts on poorer countries and households and therefore exacerbate inequalities among countries, but also between the rich and the poor. Mortality rates from disasters in low- and middle-income countries are four to five times higher than those in high-income countries. Climate change also magnifies the risk of disasters and increases their costs. As the climate system has warmed, the number of weather-related hazards globally has tripled, and the number of people living in flood-prone areas and cyclone-exposed coastlines has doubled – a trend that is expected to intensify.

What can be done?

Economic growth alone is not sufficient to reduce inequalities. Tackling high inequalities will require fiscal policy interventions to support progressive investment in essential public programmes, such as health care and education.

Employment policies that encourage decent job creation also need to be in place in countries where labour market informality is high. This would not only build a more productive and healthy workforce – critical

for economic growth and closing development gaps – but also support economic and social stability. The abundance of vulnerable and low-skilled occupations is a manifestation of existing inequality and contributes to discouragement, social exclusion and marginalization.

Inequalities in opportunities undermine human dignity and social justice and bring questions of human rights to the forefront of the 2030 Agenda. Overall improvements in access to basic services must therefore reach everyone, particularly groups identified as being the furthest behind.

Environmental degradation, urbanization and climate-induced disasters are often missing from the policy debate on fighting inequality. Reducing inequality of both income and opportunity also requires better conservation of natural capital. Bringing national policymaking on inequality into an overarching framework that includes environmental considerations will therefore be paramount.

To an increasing extent, technologies can either exacerbate or curb inequalities. More advanced countries, often early adopters of frontier technologies, must focus on managing the impact of technological transitions on inequality. Middle-income countries should focus on upgrading technological skills and ensuring that technological progress is inclusive. The priority for low-income economies is to build their technological capabilities, focusing on the adoption, adaptation and diffusion of existing technologies. Particularly important is the development of broadband infrastructure for both technological development and bridging of the digital divide.

In a region as diverse as Asia and the Pacific, there is no single solution to curb high and increasing inequalities. Because of the complexity and interlinkages of inequalities and the diverse impact these have on people, society and the planet, policy reforms need to be guided by multisectoral and multi-stakeholder involvement at all stages from development and design to implementation and monitoring. This report puts forward an eight-point broad policy agenda for building more equitable and inclusive societies in the Asia-Pacific region:

1. Strengthen social protection

Social protection policies, including access to health-care services, are central to closing the gaps in access to most opportunities, while also increasing prosperity, resilience and empowerment. Expanding social protection to low-income families through cash transfers, or other income-support mechanisms also tends to have strong multiplier effects, as these groups typically spend their extra income on domestic goods and services.

2. Prioritize education

A well-educated population is fundamental for all spheres of development. It is therefore critical for national education systems to encourage higher educational attainment and at the minimum improve secondary completion rates by ensuring that it is accessible and affordable for all, including girls and for those living in rural areas. Countries where the gap in educational attainment has narrowed, and where overall access is high, should instead focus on strengthening the quality of education by investing in teachers' education and training, school equipment and infrastructure and making sure that current curricula correspond to future labour-market needs to facilitate the school-to-work transition. High-quality higher education is also critical for harnessing the potential of technology for inclusive development.

3. Protect the poor and disadvantaged from disproportionate impact of environmental hazards

Targeted policy measures that reduce exposure of the poor and disadvantaged to environmental hazards are important to close inequalities within countries. Such measures could include better urban planning, establishing green corridors and regular health check-ups in schools in poorer neighbourhoods. This is especially relevant in countries with a higher risk of pollution, natural disasters, overexploitation of natural capital and natural resource-related conflicts.

4. Address the digital divide and ICT infrastructure

Information and Communication Technology (ICT) is a development enabler and a growth sector on its own. The development, application and adaptation of frontier technologies rely largely on the availability of ICT infrastructure and access to it. Thus, addressing the digital divide and developing affordable, resilient and reliable broadband infrastructure is a development priority in Asia and the Pacific. If left unaddressed, inequality could become unbridgeable, with implications for many other areas of development. As broadband development is geography-dependent, regional and subregional cooperation is key to addressing the challenge.

5. Address persistent inequalities in technological capabilities among and within countries

To catch up with more advanced economies, countries with low technological capabilities should consider strengthening technological learning through public policies that focus on the adoption, adaptation and diffusion of existing technologies. To ensure technology does not further exacerbate inequalities within countries, ESCAP member States will need to anticipate the impact of technologies on jobs, wages and markets; and introduce inclusive technology and innovation policies that enable low-income and vulnerable populations to benefit from technology and to participate in innovation activities.

6. Increase effectiveness of fiscal policies

An effective tax system enhances public revenues and facilitates increasing investments in essential services, such as health care, education and social protection. To this end, better and effective governance will be needed to boost overall tax compliance and improve composition and efficiency of public expenditure. Similarly, reforming tax structures to reduce their adverse effects on the poor through progressive taxes on personal income, property and wealth can help prevent excessive concentration of wealth and power in the hands of a few, ensuring greater equality of opportunity within and across generations.

7. Improve data collection to identify and address inequality

To identify those at risk of being left behind and to direct policymaking at certain population groups, national data collection needs to allow for better disaggregation. It also needs to capture how unequal opportunities impact individual aspirations and household decisions and why certain individuals, for example, take their children out of school or continue using unclean energy options, while others do not.

8. Deepen regional cooperation

Regional cooperation can be fruitful for narrowing inequalities within and among countries. Regional economic cooperation and integration can help the lesser developed countries grow faster by leveraging the dynamism of more developed economies and by exploiting the complementarities in a mutually beneficial manner. Regional cooperation can also help in addressing common challenges, such as shared vulnerabilities to natural disasters and climate change, or in supporting common objectives, such as the extension of broadband networks, as highlighted in the report. In addition, regional platforms for sharing good practices in addressing inequalities and extending social protection coverage can be fruitful. Member States of ESCAP have adopted a number of resolutions for strengthening regional cooperation and integration, as well as the Regional Roadmap for Implementing the 2030 Agenda for Sustainable Development in Asia and the Pacific, which also outlines opportunities for regional cooperation in different thematic areas including on inequality. As their regional commission, ESCAP stands ready to support the member States in implementing the Roadmap and in strengthening regional cooperation for addressing inequalities.