

Chapter 5

A Policy Agenda to Address the Mutually Reinforcing Dimensions of Inequality



The 2030 Agenda for Sustainable Development, which was unanimously adopted by 193 Member States of the United Nations in September 2015, includes strong commitments to reduce various forms of inequality. In addition to Sustainable Development Goal 10, “Reduce inequality within and among countries”, the Agenda includes several targets to reduce specific aspects of inequality. Examples include targets on social protection systems for all (1.3), access by all people to food (2.1), universal health coverage (3.8), completion of primary and secondary education by all girls and boys (4.1), ending all forms of discrimination against women and girls (5.1), and universal access to drinking water (6.1) and modern energy services (7.1).¹

This report has found that income and wealth inequality has increased in Asia and the Pacific over the last two decades and that there are significant gaps in access to education, health care and nutrition, water and sanitation, clean energy, information and communications technology, as well as finance and credit within countries. The report has also found that the impact of natural disasters and environmental hazards, such as air pollution, is unevenly distributed among the population, affecting more severely the poor and the most vulnerable segments of the population. The inequality trends and gaps uncovered by this report pose a serious threat to the successful implementation of the 2030 Agenda.

5.1 INTERACTION OF DIFFERENT DIMENSIONS OF INEQUALITY

A novel aspect of this report is its focus on multiple aspects of inequality – of outcomes, opportunities and impacts – and its special attention to the role of technology. While the preceding chapters have considered these forms of inequality separately, the analysis has also shown that different forms of inequality are interdependent and mutually reinforcing. On the one hand, unequal access to opportunities exacerbates inequality of outcomes. On the other hand, unequal outcomes in terms of income and wealth aggravate inequalities in access to health care, education, technology and protection from natural disasters and environmental hazards. Such disparities perpetuate themselves when the wealthy have disproportionate influence over political power and policymaking decisions. Inequalities can also perpetuate over time and over generations if they are driven by prejudice and discrimination against certain groups of the population.

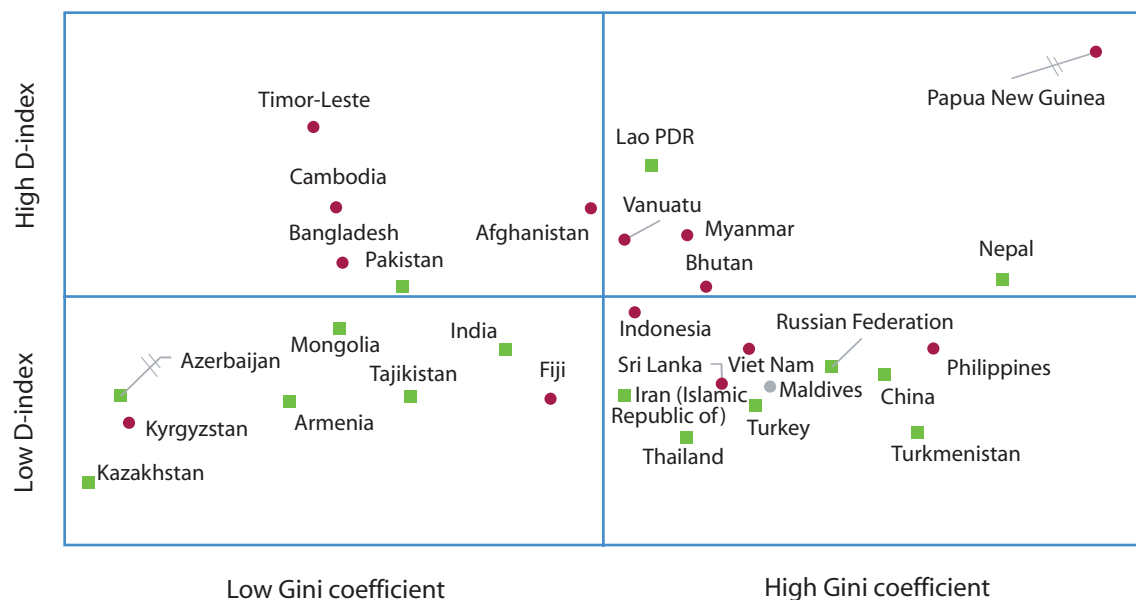
The interaction between inequality of outcome, opportunity and impact varies across the region’s very diverse economies as indicated by their position in one of the four quadrants of Figure 5.1. The figure classifies



countries into four groups according to the values of their Gini coefficients and D-indices as well as countries' vulnerability to natural disasters, with green indicating

low to medium risks and red indicating high risks.² The figure provides a typography of inequality, which is described below.

Figure 5.1 Inequality of outcomes and opportunities, and their relation to vulnerability to natural disasters



Source: ESCAP calculations using data from the latest DHS and MICS for countries in the Asia-Pacific region.

Note 1: D-index values for Azerbaijan, China, Fiji, Islamic Republic of Iran, Nepal, Papua New Guinea, Russian Federation, Sri Lanka and Turkey are interpolated using OLS with data of access to electricity, clean water and safe sanitation in respective countries.

Note 2: The quadrants are split as per average Gini (35.73) and D-index values (0.2) for countries used in the analysis. Red dots and green squares stand for World Risk Index values, with green squares for low and medium risks (0-7.35) and red dots for high risk (7.35+) of disaster.

Note 3: Azerbaijan and Papua New Guinea have been rescaled to improve the graph's clarity.

Group 1: Low Gini, low D (lower, left quadrant)

These countries are mostly in North and Central Asia. Some of them (Kyrgyzstan and Tajikistan) are also low-income countries. Inequalities of opportunity among these countries are generally low because of historically strong provision of universal social protection and basic public services. When these countries became independent in the early 1990s, they suffered a severe economic crisis that led to negative economic growth and steep increases in income inequality. In recent years, many of these countries have managed to also reduce their income inequalities to comparably lower levels, especially Armenia, Kazakhstan, Kyrgyzstan and Tajikistan. All of these countries, with the exception of Fiji and Kyrgyzstan, are fairly resilient to natural disasters.

Group 2: High Gini, low D (lower, right quadrant)

This group consists of mostly upper-middle income countries, such as China, the Maldives, Russian Federation and Turkey, but also some lower-middle income countries, such as the Islamic Republic of Iran, the Philippines and Thailand. Several of these countries, such as China, Indonesia, and Viet Nam, experienced increases in income inequality over past decades, while

others saw an opposite development. In general, these countries have prioritized investment in public services and as a result have seen opportunities more equally distributed. Close to half of these countries are also highly vulnerable to natural disasters.

Group 3: Low Gini, high D (upper, left quadrant)

This group includes three countries from South and South-West Asia – Afghanistan, Bangladesh and Pakistan – and two from South-East Asia – Cambodia and Timor-Leste. Four of the five countries in this group are least developed countries (LDCs). All these countries have relatively higher inequality in access to opportunities but lower, albeit often increasing, income inequalities. This is particularly the case for Bangladesh. Some of these countries are transitioning from agricultural-based societies to manufacturing- and services-driven economies. Four out of the five countries in this group are highly vulnerable to natural disasters.

Group 4: High Gini, high D (upper, right quadrant)

This group includes five LDCs plus Papua New Guinea. These countries are transitioning from primarily agriculture-based societies to manufacturing- and

services-driven economies. During this transition, they may experience large increases in income to people engaged in new economic activities characterized by faster increases in labour productivity.³ At the same time, these countries are also experiencing higher levels of inequality of opportunities because of inadequate investments in people. Specifically, the tax base remains narrow, with more reliance on indirect taxes, often regressive taxes, as opposed to direct and progressive taxation. This, in turn, is adversely affecting the fiscal space to invest in education, health care and other basic social services. Four of the six countries in this group are highly vulnerable to natural disasters.

A commonality across groups is the higher vulnerability to natural disasters by countries with high inequality of opportunities (Groups 3 and 4). This is worrisome because it implies that the most vulnerable and marginalized people in these countries face not only a higher risk of being affected by a disaster but also lower access to basic services, making inequality of impact more severe. Given that impacts of climate change are expected to intensify in the future, it is important to implement policies aimed at increasing the resilience of poor and marginalized people in countries with high vulnerability to natural disasters.⁴

Likewise, it is worthwhile noting that Afghanistan, Bangladesh, Bhutan, China, India, Islamic Republic of Iran, Myanmar, Nepal, Pakistan and Tajikistan record the highest levels to air pollution in the region.⁵ While these countries can be found in all quadrants in Figure 5.1, the common threat from air pollution also requires strategies aimed at protecting the poor and the vulnerable as a means to reducing inequality of impact.

Yet another measure of rising environmental risk is the rate of degradation of natural capital. Several developing countries, such as Indonesia, showed deceleration in their growth rates of renewable natural capital in 2010-2014 compared with 2005-2010.⁶ In these countries, conserving the renewable natural capital and ensuring growth of natural capital through policies would help in fighting inequalities. The analyses in chapter 3 has clearly shown that the poor are disproportionately more dependent on natural capital and destruction of natural capital contributes to widening within country inequalities.

A final finding from the typography of countries is related to their relationship to the digital gap, measured by the share of the population that has access to fixed-broadband internet services. In Figure 5.2, this variable is depicted as a bubble, with larger bubbles representing greater access.⁷ Irrespective of countries' inequality of outcomes, their access to broadband internet services is significantly higher if their inequality of opportunities is low.

Technological advances further complicate these interactions. For example, access to digital technology broadens access to opportunities. Therefore, countries with high access to digital technology show lower levels of inequality of opportunities. However, countries with high access to digital technology show both low and high inequalities of outcomes.

5.2 POLICY RECOMMENDATIONS

Policies that aim to reduce inequality in all its forms need to tackle a range of areas, but also to reflect national and local circumstances. Detailed recommendations have been included at the end of each of the previous chapters. With that in mind, the following are eight broad policy directions for consideration, abstracting from the more detailed recommendations found in individual chapters:

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.

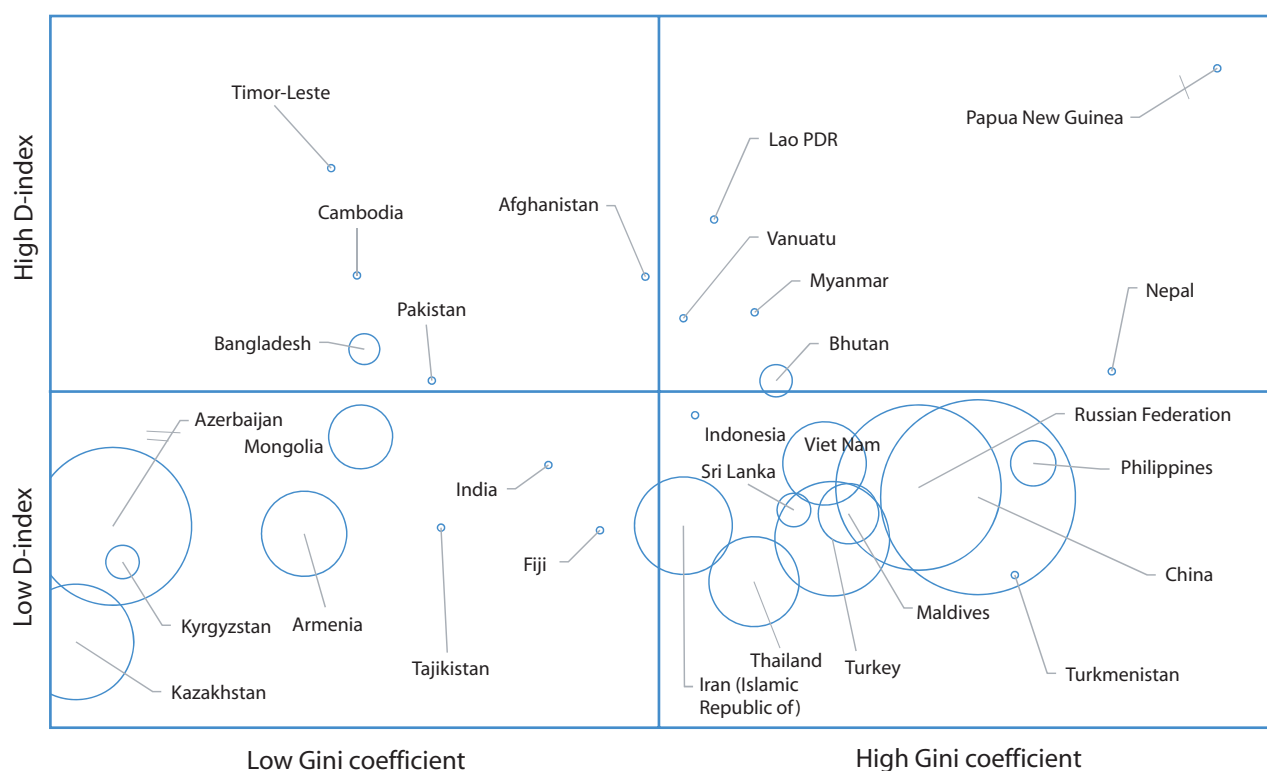
2. *Prioritize education*

A well-educated population is fundamental for all spheres of development. It is therefore critical for national education systems to encourage higher education attainment and at the minimum improve secondary completion rates by ensuring that it is accessible and affordable for all, including 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

Figure 5.2 Inequality of outcomes and opportunities, and the digital gap



Source: ESCAP calculations using data from the latest DHS and MICS surveys for countries in the Asia-Pacific region.

Note 1: D-index values for Azerbaijan, China, Fiji, Islamic Republic of Iran, Nepal, Papua New Guinea, Russian Federation, Sri Lanka and Turkey are interpolated using OLS with data of access to electricity, clean water and safe sanitation in respective countries.

Note 2: The quadrants are split as per average Gini (35.73) and D-index values (0.2) for countries used in the analysis. Bubbles stand for the number of fixed-broadband Subscription per 100 inhabitants. Values range from 0.02 per cent in Afghanistan to 22.9 per cent in China. The minimum value for a visible bubble is 1 per cent.

Note 3: Azerbaijan and Papua New Guinea have been rescaled to improve the graph's clarity.

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

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 concentrations 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.

ENDNOTES

¹ Target number in parenthesis. For full descriptions of the targets and other examples, see United Nations (2015), *Transforming our world: the 2030 Agenda for Sustainable Development*. <https://sustainabledevelopment.un.org/post2015/transformingourworld>.

² See the footnote to Figure 5.1 for details.

³ An example would be when a mineral deposit is developed in a mainly agrarian country. The value of the new mineral production per unit of worker will greatly exceed the regular value of agricultural production per worker. As a result, income distribution will become skewed, with a large concentration accruing to the owners of the mine.

⁴ United Nations, Economic and Social Commission for Asia and the Pacific (ESCAP) (2017g). Available at: http://www.unescap.org/sites/default/files/1_Disaster%20Report%202017%20Low%20res.pdf

⁵ ESCAP calculation based on data on PM2.5 air pollution, mean annual exposure (micrograms per cubic meter), available at <https://data.worldbank.org/indicator/EN.ATM.PM25.MC.M3>

⁶ ESCAP calculation using data from World Bank (2018)

⁷ See footnote to Figure 5.2 for details.