1

INTRODUCTION

Adam Triggs and Shujiro Urata

The death of a former world leader is followed by much reflection. We reflect on their legacy, their policies and the decisions they made. The passing of former US president George HW Bush in 2018, however, was different. We reflected not only on the man and his legacy, but on how radically the United States, and its government, has changed since then.

In a 1989 debate, President Bush was asked about illegal immigration. In his answer, he referred to illegal immigrants in the United States as 'good people, strong people and part of my family'. He called them 'honourable, decent, family-loving people' and discussed practical options to balance their human rights with the need for an orderly immigration system.

On trade, President Bush strived for an open America. 'We don't want an America that is closed to the world,' he said in 1989 (Green 2018). President Bush signed the North American Free Trade Agreement (NAFTA) to 'build a common future built on shared values'. 'We recognise trade is an important part of our economic growth,' he said, 'Trade creates widespread prosperity and further enhances global stability' (Bush 1999).

How quickly times have changed.

The election of Donald Trump has seen a radical shift in US policies, and rhetoric, on openness and the role of the United States in the world. Illegal immigrants have been depicted as drug dealers, criminals, rapists and terrorists (BBC 2016). Trade deals have been scrapped. Trade wars have been started and characterised as being 'good' and 'easy to win'. He has declared himself 'a tariff man' as he deepens his trade war with

China (*Wall Street Journal* 2018). The President has refused to reappoint judges to the World Trade Organization (WTO) dispute settlement body, threatening to plunge the institution into crisis (Miles 2018). He has withdrawn from the Trans-Pacific Partnership (TPP) and the Paris Climate Accord, while other US lawmakers have considered abolishing institutions like the International Monetary Fund and the World Bank (Bergsten 2000).

Trump appears determined to undermine the rules-based global system that the United States spent 70 years creating, risking the very prosperity that this system has created. But Trump is a symptom rather than a cause. He represents a growing discontent with the direction in which the world is heading.

This discontent is by no means limited to the US rust belt. Advanced economies across the world are experiencing a sharp backlash against globalisation. It appears to be contagious. The critical question for this book is whether Asia, the most dynamic region in the world, will catch it next.

The citizens of many advanced economies now believe that globalisation is a bad thing. Less than half of those surveyed in France, the United States, Britain, Australia and Norway believe that globalisation is a force for good. Westerners believe the world is getting worse. Only 11 per cent of Americans believe that the world has improved in recent years (Smith 2016).

The numbers are worse in Europe, where 52 per cent of French citizens believe their country should not have to rely on imports. Only 13 per cent believe immigration is a good thing. Attitudes towards foreign investment are in sharp decline. The French, Australians, Norwegians and Americans oppose the idea of foreigners buying indigenous companies (Smith 2016).

The drivers of this backlash against globalisation are as numerous as the challenge is serious (Bergsten 2000). But most analyses suggest a common core: the rise in inequality, a lack of inclusive growth and the belief that openness has made it worse (Pastor & Veronesi 2018).

Inequality is high and rising in many advanced economies. Inequality can be measured in multiple ways, which are discussed in detail in this book. One way is to measure the percentage of national income that goes to the top 10 per cent of income earners. In Europe, the top 10 per cent of income earners receive about 37 per cent of national income. In the United States, Canada and Russia this figure is worse at around 47 per cent (World Inequality Lab (WIL) 2018).

This inequality has grown quickly. The share of national income going to the top 10 per cent has increased by a fifth in Europe since 1980. In the United States and Canada, it has increased by more than a third. In Russia it has doubled (WIL 2018).

The growth in inequality is even more pronounced when looking at the top 1 per cent of income earners. For this group of ultra-rich in the US, their share of national income has almost doubled from 11 per cent to 20 per cent since 1980. The share of the bottom 50 per cent has almost halved, from 21 per cent to 13 per cent (WIL 2018).

Many blame this rise in inequality on globalisation and the openness of economies. The most commonly cited evidence for this claim is the so-called 'Elephant chart' (Figure 1.1). Over the period of rapid globalisation from 1988 to 2008, the chart shows big income gains from globalisation at the very top (the trunk) and for those in the middle (the torso). But the cohort around the 75th and 85th percentile – sandwiched between their own country's ultra-rich and the booming middle classes in the emerging market economies – barely benefited at all. This cohort was pivotal in the election of Trump. It underpinned the Brexit vote and has fuelled the rise in European nationalism.

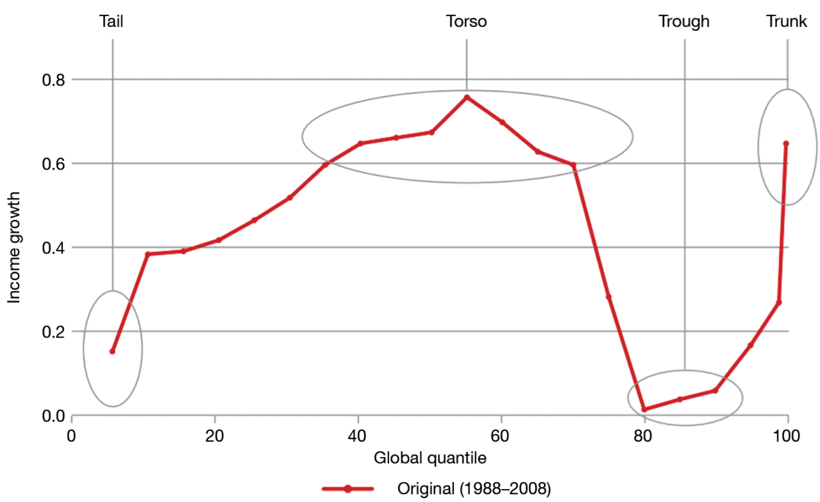

Figure 1.1. Christoph Lakner and Branko Milanovic's 'Elephant chart'
Source. Kharas & Siedel 2018

The research shows that much of this backlash against globalisation is misdirected. There is little evidence that immigration reduces native wages or hurts employment (Breunig et al. 2017). The size, scale and influence of foreign investment are often dramatically overstated and its benefits overlooked (RMIT 2013). The alleged negative effects of trade liberalisation on growth, employment and wages are often confused with the effects of technological automation, which replaces workers with machines (Cocco 2016). And many of the negative effects that flow from trade and investment liberalisation are due to poor domestic policies and weak social safety nets. Economies with strong social safety nets have weathered current transitions well. Those without them have not (Colford 2016).

But regardless of the causes of the current discontent, it is inescapably true that, in advanced economies, globalisation and openness are increasingly viewed with suspicion. This creates a predicament for Asia, which has seen spectacular growth in recent decades. It has benefited substantially from openness and the rules-based global order. Asia not only exports to the advanced economies, but it is also experiencing rising inequality. Much of Asia's growth has not been shared; it has not been 'inclusive growth'.

Inequality in Asia is increasing in wealth and incomes. It is also increasing between genders, races, ages and locations. Will Asia catch the anti-globalisation backlash? How can Asia reduce inequality? What are the forces that determine whether growth in the Asia–Pacific is inclusive or not? And what can be done to make Asia's growth more inclusive in the future? These are the questions explored in this book.

Economic theory and practical lessons for measuring equality of opportunity in the Asia–Pacific region, by Miles Corak

Ensuring that growth is inclusive in the Asia–Pacific means, among other things, ensuring there is more equality. But what exactly does 'equality' mean? And what does it mean to have more of it?

The push for equality has become a challenging political topic in many Asian countries. Much of this debate hinges on how we define equality and the policy solutions that flow from this definition. The area where there appears to be the most political agreement is that we should, at a minimum, strive for equality of opportunity. In Chapter 2, Miles Corak explores this difficult concept.

Theorists and philosophers continue to debate the definition of equality of opportunity, relying as it does on an inherent value judgement to distinguish between 'circumstance' and 'effort'. A young person may, for example, have access to good quality tertiary education through government-funded positions, scholarships or deferred-payment schemes. We may conclude, therefore, that this young person has equality of opportunity and any failure to take up these opportunities is the result of insufficient effort and bad decision-making on their part. But what if this individual has caring responsibilities in their family that are not accounted for? What if their school years failed to prepare them for tertiary education? What if they were raised by parents who did not value education and actively steered them away from it? Suddenly this notion of 'equality of opportunity' becomes much less clear.

The notion of equality of opportunity, however, rings true at some basic level for many citizens, regardless of their country and regardless of their political persuasion. It is one of the few areas of this debate that can be agreed upon by many across the political spectrum. For this reason alone, Corak argues, practitioners should grasp firmly onto whatever theoretical threads they can in order to offer practical indicators that are useful to identify problems and to guide policy solutions.

One commonly used indicator of equality of opportunity is intergenerational earnings elasticity. A high elasticity implies a significant fraction of income inequality will be passed on across generations. In this scenario, a child's adult income will continue to be correlated with their grandparents' income, putting aside any independent influence grandparent income may have on the transmission process.

Conversely, a low intergenerational elasticity suggests that any advantage that parents may have echoes only weakly among the next generation. With no tie at all between child and grandparent incomes, any income advantage or disadvantage is wiped out within two generations.

In the Asia–Pacific, India is estimated to stand at the upper end of this ranking with an intergenerational elasticity of 0.596. The elasticity in China is 0.399. This is somewhat lower than India and the United States, but is nonetheless a relatively high elasticity. Most of the higher income countries in the Asia–Pacific region have higher rates of mobility, whether compared to others in the region but also globally. Countries in South Asia tend to have lower mobility than those in East Asia and the Pacific.

Indicators like intergenerational elasticity are powerful tools. They help policymakers identify serious challenges and tailor policy solutions. But are they reliable?

Intergenerational elasticity, for example, assumes linearity in the mobility process. It assumes that mobility for the very rich is the same for the very poor. As such, it offers no specific sense of directional movement, which may vary across the parental income distribution. The upward movement from rags to riches may not be the same as the downward movement from riches to rags. Further, the elasticity cannot be given a causal interpretation and, though it informs discussions of 'equality of opportunity', it is not, on its own, a measure of this concept.

Corak explores the reliability and usefulness of this and other measures of equality of opportunity. He draws three lessons for the development of useful indicators.

First, existing data should be investigated to calculate standard summary measures of intergenerational mobility. New data should be developed for this purpose from administrative sources. Existing surveys should be enhanced with retrospective information.

Second, common descriptive statistics of mobility across generations should be complemented with other measures that speak more directly to policy concerns. These include measures of absolute mobility and an associated poverty rate based on the minimum level of resources needed to reasonably lower the risk of the intergenerational transmission of low status.

Finally, a dashboard of statistics should be developed to gauge equality of opportunity across different indicators. This involves organising existing information and developing new instruments to chart the relationship between family background and child development through the whole series of transitions that children make on their way to becoming successful and self-sufficient adults.

As many of the chapters in this book show, promoting inclusive growth in the Asia–Pacific requires politically difficult reforms. History shows that the political will to implement reforms can quickly evaporate when there is dispute over the nature of problem to be addressed. Ensuring we can properly measure, identify and understand the challenge of promoting inclusive growth is therefore critical.

Measuring wealth: Implications for sustainable development, by Kevin J Mumford

One of the World Bank's most influential reports is its annual publication of the Doing Business rankings. The rankings compare the business environments across countries, measuring how long it takes a firm to be registered, obtain electricity, secure a building permit, pay taxes and complete many of the other tasks necessary to start and run a business.

The Doing Business rankings have brought out the competitive spirit between countries. Many governments, like those in India and China, have sought to implement reforms to improve their ranking against other countries. But there is a downside. Many of these reforms, it seems, have been unusually specific. Rather than seeking to improve the business environment more generally, many reforms have targeted the specific areas that are measured by the World Bank. By gaming the World Bank's methodology, governments have been able to maximise their country's ranking while minimising their reform effort (*The Economist* 2018).

The impact of the Doing Business rankings is an important lesson: what we choose to measure strongly influences the focus of policy. This is the warning from Kevin Mumford in exploring how we think about, and measure, current and intergenerational wellbeing and wealth in Asia. In Chapter 3, he explores how to present income and wealth data from several Asia–Pacific countries. While he does not evaluate policies, he shows that what we measure determines our focus when choosing policies and strongly influences how we view our political leaders and how we vote.

Mumford uses the term 'current wellbeing' to describe the standard of living enjoyed in a country and the term 'intergenerational wellbeing' to describe the long-run standard of living that will be enjoyed by a country's future generations. Mumford argues that wealth accounting allows us to measure the productive base that provides for the wellbeing of future generations. As a theoretically based measure of intergenerational wellbeing, inclusive wealth, he argues, is the appropriate way to evaluate if economic development is sustainable.

The methods for calculating inclusive growth do not require assumptions about optimality, nor do they require forecasts of future quantities. They do, however, require high-quality price and quantity data for a variety of capital assets. Mumford presents inclusive wealth measures for several Asia–Pacific countries and the computed results make it clear that gross domestic product (GDP) growth does not necessarily indicate growth in inclusive wealth. Indonesia and Malaysia both have periods of GDP growth that occur simultaneously with decreases in inclusive wealth. In fact, he finds that GDP growth rates tend to be larger than inclusive wealth growth for most countries with the exception of Japan. Across most Asian countries, natural capital has experienced large decreases while produced and human capital has experienced large increases. An exception is the Republic of Korea (South Korea hereafter) where natural capital is increasing, driven by renewable natural resources including forests.

Wealth accounting, Mumford argues, will not replace GDP. Flow variables, like GDP, are directly related to current wellbeing. Stock variables, like inclusive wealth, are instead related to potential intergenerational wellbeing. An increase in inclusive wealth implies that future citizens will inherit a larger productive base and will therefore be able to enjoy higher levels of wellbeing. He adds, however, that this is only a statement about potential intergenerational wellbeing, not a claim that wellbeing will necessarily be higher.

Mumford encourages government statistical offices to augment their wealth accounts by measuring the value of human and natural capital. Just as firms create annual balance sheets, governments should prepare annual wealth accounts. Citizens need wealth measures to be able to hold their government accountable for the policies it enacts. Without wealth accounting, all citizens can do is look at the usually strong GDP per capita growth rate and hope that it will continue indefinitely.

Rising inequality amid rapid growth in Asia and implications for policy, by Juzhong Zhuang

Over the past three decades, developing Asia achieved economic growth and reduced poverty faster than any other region of the world at any time in history. There are some recent trends, however, that threaten to overshadow this phenomenal achievement.

Juzhong Zhuang analyses the recent trend of rising income inequality in developing Asia. While growth has increased substantially, the bulk of the region's population lives in countries with rising income inequality. This is in contrast both to the 'growth with equity' story that marked the transformation of the newly industrialised economies in the 1960s and 1970s, and to recent trends in some other parts of the developing world, particularly Latin America, where income inequality has been narrowing since the 1990s.

Zhuang identifies the factors driving this trend and, more importantly, what policies are required to reverse it and reduce income inequality. Zhuang observes that inequality of opportunity is prevalent in developing Asia and is a crucial factor in widening income inequality. Inequality of opportunity and of income can lead to a vicious circle, as unequal opportunities create income disparities, which in turn lead to differences in future opportunities for individuals and households. Zhuang argues that increasing inequality weakens the basis of economic growth.

Technological change, globalisation, and market-oriented deregulation have played a critical role in driving Asia's rapid growth. But they have also had significant implications for the distribution of wealth. These forces tend to favour owners of capital over labour, skilled over unskilled workers, and urban and coastal areas over rural and inland regions. The impacts of these forces have been compounded by various forms of unequal access to opportunity caused by institutional weaknesses and social exclusion. Zhuang shows that these forces have worked together to lead to a falling share of labour income in total national income, increasing premiums on human capital, growing spatial disparity, and widening wealth inequality – all of which contribute to rising income inequality. But how should Asian governments respond to rising inequality?

Zhuang argues that the three driving forces of economic growth – technological change, globalisation, and market-oriented deregulation – should not be obstructed, even if they cause rising inequality. Doing so would cause more harm than good. What is required, Zhuang argues, is to have policy measures deployed that confront rising inequality and focus on equalising opportunity. These policies include measures toward creating more high-quality jobs for the broader population; interventions that narrow spatial disparity; fiscal policies that reduce inequality in human capital and make the tax system more effective and fairer; and reforms that strengthen governance and institutions, level the playing field, bolster the social safety net and eliminate social exclusion.

Openness and inclusive growth in South-East Asia, by Aekapol Chongvilaivan

A lack of inclusive growth has contributed to a backlash against globalisation in both advanced and emerging economies alike. The Asian region has invested heavily in openness, however, as Zhuang shows, it has also experienced rising inequality in recent years. Are these two phenomena related? Is Asia's pursuit of openness helping or hindering inclusive growth?

Aekapol Chongvilaivan explores this question. Given the complex interplay between openness and inclusive growth, he empirically investigates the redistributive effects of trade and financial openness in the context of South-East Asian economies. The relationship between openness and inequality, it seems, is not as clear as anti-globalists suggest.

First, contrary to the opinion of the anti-globalists, trade openness has no significant impact on inequality. This is consistent with the literature. Studies that have looked at the relationship between openness and inequality, in South-East Asia and elsewhere, typically struggle to find any robust relationship.

Chongvilaivan, however, finds a different story when trade is broken down into its respective export and import components. He finds that the export and import components of trade openness have opposing effects on inequality. While export openness tends to mitigate inequality, more exposure to imports results in higher inequality. Although further research is required, the impact on wages is posited as a potential reason for this.

Importantly, Chongvilaivan finds that financial liberalisation, measured by the ratio of foreign assets to GDP, helps to reduce inequality. He argues that greater financial liberalisation provides greater access to financial resources and opportunities for the poor. There is a robust literature in support of this argument. Chongvilaivan argues that freer flows of cross-border capital may provide greater access to financial resources and economic opportunity to the poor.

Several policy insights flow from these findings. The interplay of exports and imports through the development of cross-border supply-chains across South-East Asian countries makes the distinction between exports and imports less clear. But the findings show that openness is by no means to blame for the observed increase in inequality. This is particularly the case for financial openness. Financial openness provides greater access to financial resources and opportunities for the poor and has played a critical role in reducing inequality.

Chongvilaivan's results are an important contribution. Combatting the rise in anti-globalisation sentiment will require many different solutions. Protectionism, Chongvilaivan shows, is not one of them.

Automation, the future of work and income inequality in the Asia–Pacific region, by Yixiao Zhou

Research shows that, when it comes to manufacturing-job losses in the advanced economies, trade is often unfairly blamed. A study found that 85 per cent of US manufacturing-job losses from 2000 to 2010 were caused by technological change – largely automation – rather than trade (Hicks & Deveraj 2015). For a region heavily invested in the global trading system, such analysis may be welcome news in Asia. But it raises critical questions about what automation and increased technological change might mean for the Asian region into the future.

Yixiao Zhou examines the impact of recent developments in technologies on employment and income distribution and identifies some important trends for the future. Based on his analysis, Zhou discusses development strategies and policies to nurture employment and growth while harnessing technological advances in the Asia–Pacific region.

Zhou observes that, despite sluggishness in the growth of total factor productivity in major economies since the global financial crisis (GFC), a new round of technological revolution characterised by automation, robotics, artificial intelligence, big data analytics and Industry 4.0 is rapidly approaching. The full impact of these new technologies, he argues, yet to be realised. Use of industrial robots has been growing quickly in Asia, surpassing their rate of adoption in Europe and the Americas. This growth in robotics is driven by firms' need to maintain competitiveness in international markets due to ageing populations and increases in labour costs in the Asia–Pacific region.

Zhou is not alone in his prediction. William Nordhaus, winner of the 2018 Nobel Prize in Economics, has made similar predictions (Nordhaus 2015). Analysis from Iraj Saniee and his co-authors at Bell Labs have predicted a productivity surge in the United States between 2028 and 2033, based on the historical time lags between technological advances and productivity booms (Saniee et al. 2017).

Zhou argues that technological progress will have positive impacts on firms' competitiveness and economic growth. But there may also be a downside. The rise of robotics will potentially cause unemployment and aggravate income inequality given that future technological progress may favour those with skills and be labour-saving for those with fewer skills. Two mechanisms with opposite effects on employment are identified: the labour-replacing effect and the productivity-enhancing effect, with the former reducing employment and the latter creating new jobs and tasks.

Income inequality is likely to rise in the short run if the labour-replacing effect dominates before new industries, tasks and jobs are generated. To deal with unemployment resulting from increased use of robots, it is important to improve the quality of workers through retraining. Zhou foresees that the rise of automation in major economies including China, South Korea, Japan, Germany and the United States will have significant impacts on the growth trajectory of emerging economies in Asia. If large-scale capital deepening continues in China, there is less hope that emerging economies can continue to follow the East–Asian growth model to prosperity, resulting in greater development gaps. Instead, firms in these countries could develop technological capability to integrate into the Industry 4.0 platforms of major economies and leverage these new technologies to leapfrog and ace in niche markets.

Zhou concludes that staying open and connected, investing in human capital, improving business environments, promoting flexible economies and stimulating entrepreneurship are strategies that will help firms in the Asia–Pacific region prosper in the new wave of technological progress.

History returns: Intergenerational mobility of education in China in 1930–2010, by Yang Yao and Zhi-An Hu

Education is referred to as the silver bullet in a world where there are no silver bullets. And the sheer scale of China means that policy outcomes there will reverberate throughout the region. When it comes to reducing inequality in Asia, education in China must therefore receive special attention.

Yao and Hu analyse intergenerational mobility in education in China by using the results of a widespread survey (China Family Panel Studies) conducted in 2010. The survey covered the intergenerational education of 62,219 people born between 1930 and 1985.

Intergenerational mobility in education is an important indicator for measuring educational equality. The survey results on educational attainment by different birth cohorts showed a continuous improvement in education in terms of school enrolment. Intergenerational mobility, however, changed dramatically during the period studied, with key implications for policy in the region.

The authors measured intergenerational mobility by computing the coefficient of correlation (transmission coefficient) between the educational achievements of two consecutive generations. A higher coefficient implies stagnant intergenerational mobility and thus slower improvement of educational equality.

According to the estimation, the coefficient formed a U–shaped curve with the lowest points situated at the birth cohorts of the mid-1950s. Intergenerational mobility was limited for people born in the early 1930s.

The coefficient dropped rapidly until the cohorts born around 1940. This shows that social mobility accelerated even before the communist revolution. After a short period of setback, the decline continued until the birth cohorts of the mid-1950s. Most of these people got their middle school and high school education during the Cultural Revolution. The political and social mobilisation during this period decisively accelerated social mobility within the Chinese population.

This process has reversed since 1978, however, when the Chinese Communist Party turned its focus to economic growth and spent less effort on social transformation. The transmission coefficient increased steadily across birth cohorts and, by the cohorts of the mid-1970s (who would finish their education by the end of the 1990s), it went back to the levels of the cohorts of the mid-1930s. In other words, educational inequality has been widening in China.

Yao and Hu point out several reasons for the decline in intergenerational mobility. One crucial reason is the disadvantageous educational environment in rural areas compared to urban areas; good high schools are concentrated in the city. Farm households' incentive to invest in their children's education has declined because of increased employment opportunity. As for university education, rural youths face the two disadvantages of poor-quality university education and high tuition fees.

Yao and Hu argue that, during 40 years of relentless economic growth, the Chinese Government and Chinese society have been firmly occupied by a single-minded belief in economic efficiency. Now that China is establishing a well-off society, it is time for the government to reintroduce social progress into its programs.

Inequality and intergenerational mobility in India, by Himanshu

Few countries embody the challenge of inclusive growth more than India. Analysis across income, consumption and wealth shows that inequality is much higher in India compared to other countries with similar levels of economic development. This has been confirmed on several dimensions, including aspects of human development such as education, health and nutrition.

Over the next five years, India is forecast to grow faster than China and the ASEAN+6 average. Even if growth moderates to 6 per cent, the economy will still double in size within two decades. A fifth of the world's workers will be Indian by 2025. The Indian economy is attracting significant global attention.

On human development indicators, India suffers from the twin problem of a high level of deprivation and low achievement on most indicators, but also from large inequalities in access and outcomes. More worrying are the trends over time that suggest a secular rise in inequality in almost all dimensions, albeit with some moderation in the most recent period.

India's rising inequality has followed significant economic growth in recent decades. The pattern of growth has increased incomes and reduced poverty but also led to a growing gap between those in the formal, service-based economy and a majority who are stuck in farming and in the informal sector with poor working conditions. The livelihood and wellbeing of these people are affected by the persistence of inequalities of caste, religion, geography and gender, all of which contribute to exclude and marginalise a large segment of the population.

Himanshu documents and analyses the trends in inequality in India, particularly in the last three decades, exploring the role of inequality in relation to mobility of households and individuals.

Himanshu finds that inequality in India has largely been driven by changes in the labour market. The rise in profit share of national income has accompanied the decline in wage share. Inequality in access to public services, such as health and education, has also risen in recent years. There are growing concerns of 'crony capitalism' in parts of India's economy.

Whether the process of growth will be sustained or not depends not just on economic policies but also policies on human development and inclusion. The evidence from intergenerational mobility provides a mixed picture. There is an overall increase in access to non-farm jobs by the poor and the disadvantaged but also a persistence of caste-based rigidities.

In the long run, inequality is not just a matter of moral and philosophical concern. Reducing it is also instrumental in sustaining economic growth by allowing a larger majority of disadvantaged to participate in and benefit from the growth process. India's success in reducing inequality will have critical economic and political implications throughout the region.

Intergenerational equity under increasing longevity, by Sumio Saruyama, Saeko Maeda, Ryo Hasumi and Kazuki Kuroiwa

People in Japan enjoy one of the highest life expectancies in the world. Lives are long in Japan, and they are forecast to get longer. This is undoubtedly a good thing. But it raises a range of challenges, including intergenerational equity.

Sumio Saruyama, Saeko Maeda, Ryo Hasumi and Kazuki Kuroiwa examine intergenerational equity by applying a simulation analysis to the case of Japan. They look at three representative generations: those born in 1950; the children of this generation, born in 1980; and the generation born 30 years later in 2010. These are referred to as generations 1, 2 and 3. If the current situation continues in the future, the younger the generation, the heavier will be the net burden and the greater the disadvantages from societal ageing.

In the simulation, life expectancies of these groups are assumed to be 85.8, 90, and 93.2, respectively. Along with longer life expectancy, working years are assumed to be extended by 10 years. The year in which people begin receiving their pension will be rolled back and they are assumed to continue paying pension-insurance premiums as they work.

Saruyama et al.'s main interests from the simulation are the impacts on consumption, generational accounting, government finance and GDP. According to the simulation results, thanks to increased longevity, Generation 3 will experience a 9–13 per cent increase in lifetime consumption. Generation 2 will see a 9–10 per cent increase. Another important finding is that the primary balance to GDP ratio would improve by 6–7 per cent over the baseline case because of the extension of working years and delay in pension payment. If the resulting fiscal surplus is then applied to reducing medical and nursing care premiums, it will be possible to lighten the burden on the younger generations.

Saruyama et al. argue that, in an age when people live to 100, exiting the workforce at the age of 65 – retirement age for many companies and institutions – is too early. Japan needs to build a system enabling people to work an additional 10 years. Extending people's healthy lifespan will also be important so that they can fully benefit from the additional consumption that longer lifespans make possible.

Having obtained the scenario, which is more favourable to business, the authors warn the need for Japan to enhance the sustainability of its social-insurance system and urgently institute reforms. These reforms must narrow the gaps between generations regarding burdens and benefits. If economic conditions deteriorate or a large-scale debt-reduction plan is required, there may not be a resolution for the young generation's disadvantage, even with the extension of the retirement age.

Female labour force participation in Indonesia: Why has it stalled? By Lisa Cameron, Diana Contreras Suarez and William Rowell

The policy objective that is integral to boosting inclusive economic growth – increasing female workforce participation – would advance human rights, grow the economy, raise household incomes, increase productivity and strengthen societies.

In 2014, the G20 committed to reduce the gap between male and female workforce participation in each of their economies by 25 per cent by the year 2025. If achieved, the Organisation for Economic Co-operation and Development (OECD) estimated that this would raise G20 GDP by more than 1 per cent, around US$1 trillion. This commitment was taken up by all G20 countries, including its six Asian members: Australia, China, India, Indonesia, Japan and Korea.

Achieving this commitment is a critical way to boost inclusive growth in Asia. But will Asia's G20 economies achieve this goal?

Lisa Cameron, Diana Contreras Suarez and William Rowell look at the interesting case of Indonesia. Despite dramatic economic advances having occurred since the late 1990s, female labour force participation in Indonesia has barely changed. Indonesia is below the average for ASEAN+3 economies. It is roughly on a par with Japan, Malaysia, Myanmar and the Philippines, but even these economies have seen female participation increase since 1995 (Japan being the other exception).

Not all news is bad. The modelling by Cameron et al. finds that, once you control for individual, household and village characteristics, there are signs that the underlying propensity for women to participate in the labour force has been increasing in Indonesia, particularly in urban areas. The problem, however, is that this increase is offset by forces reducing female participation. The most significant offsetting force is the continued decline in the relative importance of the agricultural sector to the Indonesian economy, given the importance of this sector to female employment.

If this underlying propensity for women to participate in the workforce continues to increase, the authors expect female labour force participation will similarly increase as older cohorts exit the labour market. But this will take time. It will likely be too late for the G20's 2025 commitment. In fact, under the authors' less-optimistic scenario (which the authors argue is more realistic), female workforce participation may even decrease by 2025 before it starts to rise.

There is another way. Using the results from their modelling on the drivers of female workforce participation in Indonesia, Cameron et al. identify a variety of policies that could be implemented to increase female workforce participation.

Their analysis finds that the main drivers of female workforce participation (cohort and age effects aside) are marital status, the number of children aged between 0 and 2 years of age in the household, educational attainment (particularly tertiary education) and the village industrial structure (with agriculture and manufacturing being female-friendly industries). These results suggest some practical ways in which the Indonesian Government could speed-up the progress in female workforce participation.

Policies that support women to return to work after childbirth are likely to have the most dramatic effects in increasing female labour force participation. These policies include the provision of some form of child care for women with young children and policies and laws that encourage employers to make part-time and family-friendly work available. Increasing the educational attainment of women, particularly in rural areas where educational attainment remains low, is also likely to assist.

No matter what new policies are put in place, the ongoing movement of the Indonesian economy away from the agricultural sector will continue to drag. Policies need to hit this head-on. Policies designed to provide women with access to employment in non-traditional industrial sectors, for example, through the provision of subsidised vocational education or campaigns that provide and promote opportunities for women in these sectors, are worthy of special attention.

Indonesia will be an important case study for the Asia–Pacific on female workforce participation. But will it be an example of what to do, or what not to do? As is often the case throughout this book, this will depend on the political will of the government.

References

BBC (2016). 'Drug dealers, criminals, rapists: What Trump thinks of Mexicans', *BBC News*, 31 August, www.bbc.com/news/av/world-us-canada-37230916/drug-dealers-criminals-rapists-what-trump-thinks-of-mexicans.

Bergsten, F (2000). 'The backlash against globalization', speech to the Trilateral Commission, Tokyo, Japan, 9 May. Petersen Institution for International Economics, piie.com/commentary/speeches-papers/backlash-against-globalization.

Breunig, B, Deutscher, N & Thi To, H (2017). 'The relationship between immigration to Australia and the labour market outcomes of Australian-born workers', *Economic Record*, 93(301), 255–76. doi.org/10.1111/1475-4932.12328.

Bush, GHW (1999). 'Free Trade @ 10', keynote address, 5 June. McGill University, Montreal, www.youtube.com/watch?v=zKeSAI8uS8g.

Cocco, F (2016). 'Most US manufacturing jobs lost to technology, not trade', *Financial Times*, 3 December.

Colford, C (2016). '"Making the case for trade": Winning voters' trust by strengthening social safety nets', *Private Sector Development Blog*, 15 May, World Bank Blogs, blogs.worldbank.org/psd/making-case-trade-winning-voters-trust-strengthening-social-safety-nets.

Green, L (2018). '"Conservative but not a nut": how Bush's party fell to Trump's troops', *The Guardian*, 3 December, www.theguardian.com/us-news/2018/dec/03/george-hw-bush-republicans-trump-1988-election-michael-dukakis.

Hicks, M & Deveraj, S (2015). 'The myth and the reality of manufacturing in America', Ball State University, June, projects.cberdata.org/reports/MfgReality.pdf.

Kharas, H & Siedel, B (2018). *What's happening to the world income distribution?*, April, Brookings Institution, Working Paper 114, www.brookings.edu/wp-content/uploads/2018/04/workingpaper114-elephantchartrevisited.pdf.

Miles, T (2018). 'US seen likely to win in effort to shut down WTO's appeals court', *Reuters*, 5 October, www.reuters.com/article/us-usa-trade-wto/u-s-seen-likely-to-win-in-effort-to-shut-down-wtos-appeals-court-idUSKCN1MF1NE.

Nordhaus, W (2015). *Are we approaching an economic singularity? Information technology and the future of economic growth*, September, Working Paper 21547. National Bureau of Economic Research, Cambridge, MA, www.nber.org/papers/w21547.pdf. doi.org/10.3386/w21547.

Pastor, L & Veronesi, P (2018). *Inequality aversion, populism, and the backlash against globalization*, Becker Friedman Institute, Working Paper 2018-53, bfi.uchicago.edu/sites/default/files/file_uploads/WP_2018-53.pdf. doi.org/10.3386/w24900.

RMIT (2013). 'Greens Senator Rachel Siewert's foreign ownership claim overstated', RMIT ABC FactCheck, 3 October.

Saniee, I, Kamat, S, Prakash, S & Weldon, M (2017). 'Will productivity growth return in the new digital era?' *Bell Labs Technical Journal*, 22, 1–18, ieeexplore.ieee.org/document/7951155. doi.org/10.15325/BLTJ.2017.2714819.

Smith, M (2016). 'International survey: globalisation is still seen as a force for good in the world', *YouGov*, 17 November, today.yougov.com/topics/politics/articles-reports/2016/11/17/international-survey.

The Economist (2018). 'Most criticisms of the Doing Business rankings miss the point', 1 November.

Wall Street Journal (2018). 'I am a tariff man', 4 December, www.wsj.com/articles/i-am-a-tariff-man-1543965558.

World Inequality Lab (2018). *World Inequality Report, 2018*, wir2018.wid.world/executive-summary.html.

This text is taken from *Achieving Inclusive Growth in the Asia Pacific*,
edited by Adam Triggs and Shujiro Urata, published 2020 by ANU Press,
The Australian National University, Canberra, Australia.

doi.org/10.22459/AIGAP.2020.01