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CONCLUSION

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Achieving inclusive growth is a major challenge for Asia–Pacific countries. Inclusive growth enables citizens to improve their standards of living, which in turn benefits us all. The realisation of inclusive growth supports social and political stability, which in turn promotes a virtuous cycle of economic growth. The realisation of a virtuous cycle of inclusive growth and social and political stability was the critical factor contributing to the 'East Asian miracle' of selected East Asian economies in the 1960s to 1980s. Conversely, it is the lack of recent inclusive growth in many of the advanced economies that has seen a sharp backlash against globalisation, openness, trade and foreign investment. Donald Trump, Brexit and the rise of the far right in Europe are the result.

Inclusive growth, which East Asian economies achieved previously, has been the focus of attention recently because many economies have experienced increasing inequality across income, wealth, gender, age and location. A variety of reasons, such as globalisation and technological progress, are proposed as having contributed to increasing inequality. The chapters of this book examine these issues.

A rigorous definition of inclusive growth is important so as to add precision to discussions of the concept and make academic and policy discussions more meaningful. What does 'inclusive growth' mean? What does it mean to reduce inequality and promote equality?

The push for equality is a challenging political topic in many Asian countries. Much of this debate hinges on defining equality and the policy solutions that flow from it. One 'definition' of equality that tends to be more agreeable across the political spectrum is the notion of equality of opportunity.

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'. The notion of equality of opportunity, however, rings true at some basic level for many citizens, regardless of their origins and political persuasion. For this reason, Miles Corak argues, practitioners should firmly grasp theories that offer practical indicators of problems and 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. Corak presents the estimated results of intergenerational earnings elasticity in Asia. This provides a useful starting point for thinking about where inequality is particularly problematic and what can be done to address it.

Corak's analysis shows that, in the Asia–Pacific, India is at the upper end of this ranking with an intergenerational elasticity of 0.596. The elasticity in China is 0.399, which is somewhat lower than India and the United States, but is nonetheless a relatively high elasticity. Corak explores the reliability and usefulness of this and other measures of equality of opportunity and argues that properly measuring equality of opportunity is critical for achieving inclusive growth.

Intergenerational equity is an important issue because it not only locks in existing inequality but also worsens it. Under such situations, social and economic dynamism fall, and economic growth cannot be realised. Inter-generational equity is an important issue in many Asia–Pacific economies that have experienced a decline in fertility, resulting in ageing populations. In such societies, the voices of aged people get louder and stronger, putting fiscal and other burdens on younger generations.

When it comes to inequality, what we choose to measure can be just as important as how we choose to measure it. What we choose to measure will often direct policy. If we take a narrow measure of inequality, we will deliver narrow policy responses. But if we measure inequality incorrectly or too broadly, or use measurements that are open to criticism, then we may do more harm than good.

'Inclusive wealth', outlined by Kevin Mumford, provides a holistic measure of inclusive growth. Mumford presents inclusive wealth measures, which he argues is appropriate for the measurement of intergenerational well being for several Asia–Pacific countries for the 1990–2010 period. The computed results make it clear that GDP growth does not necessarily indicate growth in inclusive wealth. Indonesia and Malaysia, for example, have both had periods of high gross domestic product (GDP) growth. Yet, this growth has occurred simultaneously with decreases in inclusive wealth. GDP growth rates tend to be larger than inclusive wealth growth for most countries, with the exception of Japan.

Governments should prepare annual wealth accounts, just as firms create annual balance sheets. Such an initiative could play a critical role in helping governments to track and measure whether their growth is inclusive or whether it is failing to deliver benefits throughout the community.

But identifying and measuring, whether growth is inclusive or not, is only half the story. The critical question explored in this book is what factors make growth more inclusive and what this means for policymakers. The impact on inclusive growth by multiple dimensions is considered, including trade, financial liberalisation, technological advances, automation, education, caste, religion, geography, ageing, intergenerational equity, gender and participation.

According to Juzhong Zhuang, inequality of opportunity is a crucial factor in widening income 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 result in rising inequality. Anything that generates wealth is a good thing. The key focus of policy should be to ensure that this wealth is distributed fairly. Zhuang recommends a series of policies to achieve this goal, including creating more high-quality jobs for the broader population, interventions that narrow spatial disparity, fiscal policies that reduce inequality in human capital and policy reforms that make the tax system more effective and fairer. Reforms that strengthen governance and institutions are critical. Levelling the playing field, strengthening the social safety net and eliminating social exclusion will help ensure that the wealth generated by technological change, globalisation, and market-oriented deregulation is shared broadly throughout the community.

A critical question that has persisted for many years regards the influence of trade and financial openness on inequality. Do they promote inclusive growth or hinder it?

Aekapol Chongvilaivan examines the redistribution effects of trade and financial openness in the context of South-East Asian economies. His empirical analysis, like much before it, suggests that trade has a statistically insignificant relationship with inequality. In aggregate, it neither improves nor worsens it. When breaking down trade into its export and import components, however, an interesting result appears. Chongvilaivan argues that exports and imports have opposing effects on inequality in the context of South-East Asian economies. While export openness mitigates inequality, more exposure to imports results in higher inequality.

Additionally, Chongvilaivan finds that financial liberalisation, measured by the ratio of foreign assets to GDP, helps reduce inequality. Opening South-East Asian economies to global financial markets has assisted those countries to promote more inclusive growth. Reducing the cost of capital and opening lower-cost international financial markets to households and firms, it seems, plays a critical role in helping these economies get a foothold on the development ladder.

These empirical results draw two policy implications. First, export promotion policy could be the effective impetus for South-East Asian governments to address the challenge of rising inequality and promoting inclusive growth. Second, freer flows of cross-border capital may provide the poor with greater access to financial resources and economic opportunities.

These results are consistent with the broader literature. Research shows that, when it comes to manufacturing-job losses in the advanced economies, trade is often unfairly blamed. A study found that technological change – largely automation – rather than trade caused 85 per cent of US manufacturing-job losses between 2000 and 2010. While this result might ease concerns with regard to trade, what does it mean for technological innovation in Asia?

Yixiao Zhou examines the impact of recent technological developments on employment and income distribution and identifies important trends for the future of inequality 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, a new round of technological revolution – characterised by automation, robotics, artificial intelligence, big data analytics and Industry 4.0 – is approaching at a rapid rate. The full impact of these new technologies, he argues, is yet to be realised. Zhou argues that, although technological progress positively impacts a firm's competitiveness and economic growth, it may lead to negative impacts on income inequality. Zhou concludes that staying open and connected, investing in human capital, improving the business environment and stimulating entrepreneurship are strategies that will help firms in the Asia–Pacific region to prosper in the new wave of technological progress.

Yang Yao and Zhi-An Hu highlight the critical role that education plays in reducing inequality and promoting inclusive growth. They analyse intergenerational mobility in education in China by using the results of a broad survey conducted in 2010, which covered 62,219 people born between 1930 and 1985.

They find that the education level has largely improved since the establishment of new China in 1949, except for a temporary setback around the ending of the Cultural Revolution. Intergenerational mobility in terms of education accelerated for people born before the mid-1950s. But the situation reversed after the 1950s and mobility remained stagnant for birth cohorts between 1955 and 1980.

This U–shape educational transmission reflects rapid economic growth based on efficiencies pursued by the Chinese Government since the late 1970s. They argue that a crucial reason for the decline in intergenerational mobility is the disadvantageous educational environment that prevails in rural compared to urban areas and they call for improvement in rural education. Above all, Yao and Hu stress the need for the government to reintroduce social progress into its programs. Their results highlight the importance of education in reducing inequality and represent a case study for the region.

Himanshu analyses inequality in India from various aspects, including caste, religion, geography and gender. Himanshu shows that, in the long run, inequality is not just a matter of moral and philosophical concern.

It is also instrumental in sustaining the growth of the economy through allowing a larger majority of disadvantaged individuals to participate in and benefit from the growth process.

Himanshu finds that inequality is much higher in India compared to other countries with similar level of economic development. This has now been confirmed especially in the economic dimensions, such as in income, consumption and assets, but also in areas of human development, such as education, health and nutrition. For Himanshu, more worrying are the trends over time, which suggest a secular rise in inequality in almost all dimensions with some moderation in the most recent period.

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. Whether the process of growth will be sustained or not depends on policies related to the economy, human development and inclusion. Evidence of intergenerational mobility is mixed, with an overall increase in access to non-farm jobs by the poor and the disadvantaged. It also shows the persistence of caste-based rigidities.

A critical area of inequality is that which persists between generations. The challenge of ageing populations throughout Asia will continue to strain this important dimension. Sumio Saruyama, Saeko Maeda, Ryo Hasumi and Kazuki Kuroiwa conduct a simulation analysis of different scenarios involving timing of retirement and collecting pensions to examine intergenerational equity in Japan, where life expectancy is increasing. Their main interests are the impacts on consumption, generational accounting, government finance and GDP. With extended working years and delays in when people move onto the pension, they find that increased longevity results in increased consumption and improvements in the government's fiscal position. Importantly, it also reduces the burden on the young and on future generations. They propose that Japan needs to build a system enabling people to work at least an additional 10 years. They also point out that extending people's healthy lifespan is critical to enjoying a longer life.

Lisa Cameron, Diana Contreras Suarez, and William Rowell use the interesting case of Indonesia to examine the issue of gender inequality. Despite the dramatic economic advances that have occurred since the late 1990s, female labour force participation in Indonesia has barely increased. They analyse the drivers of female labour force participation and disentangle the factors that have contributed to female participation remaining largely unchanged for two decades, at around 51 per cent. By applying a cohort analysis to separate life-cycle effects from changes over time in women's labour market participation, over the period 1996 to 2013, they find that the raw labour market participation figures, which show little change over time, mask changes that offset one another in the current population.

There is evidence of social norms changing to support women's participation, but this is offset by the effect of the changing industrial structure. Projections show that with the current policy settings, Indonesia is unlikely to reach the G20 target of decreasing the gender gap in participation by 25 per cent between 2014 and 2025. According to the authors, policies that support women to return to work after child birth 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, is also likely to assist. Moreover, 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.

This book began with the story of the advanced economies. The backlash against globalisation has spread quickly from one country to the next. It has most profoundly affected the United States, the United Kingdom and countries throughout Europe. The common denominator, more often than not, is inequality and the belief that globalisation and openness has made it worse.

Asia's recent experience of rapid growth has come at the cost of higher inequality. Asia has a small window of opportunity to learn from the experiences of the advanced economies and put in place the policies that are necessary to reduce inequality and promote more inclusive growth. This will be the key determinant in deciding whether Asia, too, will see a backlash against globalisation and an attack on the very things that have given Asia its prosperity: trade, investment, immigration, technology and international collaboration.

This book has clear messages on how this can be done. Inequality is an increasingly politically sensitive topic in Asia. But focusing on equality of opportunity frames the debate in a way that is palatable to different political persuasions. Equality can be considered in terms of outcome and opportunity. Although achieving reasonable equality in outcome may be important to maintain social and political stability, attempting to achieve complete equality in outcome could deter economic growth. It may result in the loss of economic dynamism by reducing an incentive for achieving success in business. While equality of opportunity is difficult to define, it nevertheless provides a starting place to begin a conversation on how we think society should look and how we think its resources should be shared.

On the other hand, achieving equality in opportunity, which is closely related to intergenerational equality, is important to generate dynamism in an economy and society. Inequality in opportunity makes it difficult for people to realise their potential in business, academia and elsewhere, leading to a lack of economic growth. Inequality in opportunity tends to result in intergenerational inequality, reducing social and economic mobility.

The chapters in this book provide several policy suggestions to remove barriers for achieving equality of opportunity. The provision of soft infrastructure, such as education in rural areas, is important to overcome the disadvantage faced by rural populations compared to their urban counterparts. Access to financial and human resources and information, such as market information by small and medium enterprises (SMEs), needs to be improved if they are to be able to compete against large firms on a level playing-field. In this regard, enforcement of competition policy is necessary for providing equal business opportunities to SMEs compared to large firms. Female workers need to be given the same opportunities as their male workers by eliminating discrimination, improving workplace flexibility and improving access to affordable child care.

The authors agree on the importance of promoting openness in trade and finance; on the importance of technological progress in order to achieve and maintain economic growth, by maintaining open trade and investment systems and competitive economies; and they agree that globalisation and technological progress continue to advance in the future. Each of these processes will be important sources of wealth. But, without carefully calibrated policies, that wealth may not be shared equally. The focus of governments should not be to undermine these sources of growth, but to ensure that their fruits are distributed broadly throughout the community, reinforcing social and economic stability and cohesion. Two-time Pulitzer Prize winner Nicholas Kristof once remarked that 'Inequality causes problems by creating fissures in societies, leaving those at the bottom feeling marginalized and disenfranchised'. The challenge for Asian governments over the next decade is to close those fissures before it is too late.

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