CONTENTS

PREFACE ................................................................................................................   3
AGENDA .................................................................................................................. 4
SPEECHES................................................................................................................ 8
  Mr Sun-ichi Murata (UN ESCAP) 8
  Mr Rintaro Tamaki (OECD) 9
  Mr. Juzhong Zhuang (ADB) 11
SUMMARY RECORD .............................................................................................. 13
OPINION PIECES .................................................................................................... 24
PARTICIPANT BIOGRAPHIES .................................................................................. 57
SESSION NOTES ...................................................................................................... 68
Inclusive Growth in Southeast Asia

The OECD / ESCAP / ADB Regional Consultation on Inclusive Growth was held on 9 June 2015 at the UN Economic and Social Commission for Asia and the Pacific (ESCAP) Headquarters in Bangkok. It engaged experts, policy makers, practitioners and civil society from Southeast Asia (SEA) in a dialogue on the trends and drivers of inclusive growth in the region. The meeting also addressed institutional approaches to inclusive growth and policies to promote inclusive growth.

Over 70 participants from 15 countries and six regional or international organisations gathered to take part in this event. The objective of the conference was to share knowledge on the issue in the specific regional context of SEA. The event was conceived by the OECD Knowledge Sharing Alliance (KSA) as part of the OECD Inclusive Growth Initiative, and was organised in partnership with the Trade and Investment Division of UN Economic and Social Commission for Asia and the Pacific (ESCAP) and the Social Development, Governance, and Gender Division of the Asian Development Bank (ADB).

These proceedings were produced by the following:

Ms. Lamia Kamal-Chaoui, Mr. Masato Hayashikawa, Mr. Shaun Reidy, Ms. Caitlin Connelly and Ms. Chelsea Roberts from the OECD, in conjunction with Ms. Mia Mikic, Mr. Adam Heal, Ms. Su-Arjar Lewchalermvongs, Mr. Teemu Puutio and Ms. Tavitra Ruyaphorn from ESCAP and Mr. Bart Édes, Mr. Rana Hasan and Ms. Anuradha Rajivan from ADB. Reports also benefitted from input from Mr. Nicholas Vanston.
AGENDA

Over the past two decades, Southeast Asia (SEA) has experienced a period of remarkable economic and social gains, with millions being lifted out of poverty and several countries attaining middle-income status. The region’s ability to capitalise on open global markets for goods and services has been crucial to its economic transformation and social improvement. It is also actively engaged on an ambitious path of regional integration, including through the formation of the ASEAN Economic Community. Yet, the drivers which have powered growth in recent years cannot be relied upon indefinitely. In many cases, the same forces that drove productivity and income growth — i.e. technological progress, globalisation and market-oriented reform — have also contributed to increasing inequalities in many SEA countries, leaving some of the poor in the region languishing in informal labour markets, cut-off from the benefits of growth and opportunity enjoyed by increasing numbers of their fellow countrywomen and men.

If left unaddressed, rising inequalities may pose real dangers to political stability and threaten to leave long-term economic potential unfulfilled, if a substantial section of a society is excluded from the benefits of growth. To sustain economic progress over the coming years and buttress continued improvements in broad-based living standards, it will be increasingly necessary for SEA governments to ensure that the proceeds of growth are more evenly and efficiently spread. In the context of a sluggish global recovery, combined with pressure on competitiveness that makes exporting more challenging, there is a need to discuss what can be done to support SEA in sustaining robust economic growth with greater inclusiveness. This conversation is particularly timely in light of the ongoing discussion on the Post-2015 development agenda, and emphasis of the Sustainable Development Goals on equity and inclusion.

A number of paths are open to governments to pursue more inclusive growth. Investing in the skills, health and social welfare of all SEA citizens will provide a platform for future growth, helping the region to move up global value chains in trade, and shift economic activity towards higher productivity sectors. At the same time, putting in place an adequate social safety net will help to facilitate the reallocation of labour to higher productivity sectors, and stop those at the bottom from falling too far behind.

The OECD/ESCAP/ADB regional consultation on inclusive growth will engage experts, policy makers, practitioners and civil society from SEA in a dialogue on the trends and drivers of inclusive growth in the region, conceptual approaches to inclusive growth, and policies to promote inclusive growth. These discussions will touch upon those areas – such as social protection systems, education and skills, trade and investment – that are at the heart of the region’s continuing pursuit of rapid economic development and social progress.

There will be four moderated sessions: Session 1: Trends and Drivers of Growth and Inequalities in Southeast Asia; Session 2: Towards a Relevant Concept of Inclusive Growth for the Region; and Session 3: Key Policy Drivers of Inclusive Growth in Southeast Asia in the Post 2015 Development Landscape – Social Protection Systems, Education and Skills; Session 4 Key Policy Drivers of Inclusive Growth in Southeast Asia in the Post 2015 Development Landscape – Trade and Labour Markets. All participants are invited to actively engage in discussions; the aim of this meeting is to encourage open and intimate conversations, for this reason there will be no PowerPoint or prepared presentations.
OPENING SESSION

09:00-09:30 WELCOME SESSION

- Mr. Shun-ichi Murata, Deputy Executive Secretary, ESCAP
- Mr. Rintaro Tamaki, Deputy Secretary-General, OECD
- Mr. Juzhong Zhuang, Deputy Chief Economist and Deputy Director General, Economic Research and Regional Co-operation Department (ERCD), ADB

SESSION 1

09:30-10:30 TRENDS AND DRIVERS OF GROWTH AND INEQUALITIES IN SOUTHEAST ASIA

MODERATOR: MARIO PEZZINI, DIRECTOR, OECD DEVELOPMENT CENTRE

Discussions during this session will set the scene for the consultation, providing an overview of the trends and drivers of growth and inequalities in SEA, raising questions on the causes of inequalities in the region, looking at the question of inequality of opportunity and income, and discussing the scope and nature of the types of actions and policies, in particular fiscal policies, that may foster more inclusive growth.

Elements for Discussion

- Is income inequality an inevitable consequence of vigorous economic growth in SEA countries? Why are different countries’ experiences different in both respects?
- What have been the defining trends with regards to inclusiveness of growth in SEA countries, and what have been the countries’ responses?
- How much fiscal margin for manoeuvre do different SEA countries for financing and implementing more ambitious social programmes?
- How much further scope is there for: (i) “static” fiscal policies (i.e. taxing the better-off and transferring income directly to the disadvantaged) and for (ii) “dynamic” fiscal policies (i.e. taxing the better off in order to finance health, education and other social policies targeted at the disadvantaged)?

10:30-10:45 COFFEE BREAK

SESSION 2

10:45-12:00 TOWARDS A RELEVANT CONCEPT OF INCLUSIVE GROWTH FOR THE REGION

MODERATOR: LAMIA KAMAL-CHAoui, SENIOR ADVISOR AND CO-ORDINATOR OF INCLUSIVE GROWTH AND KNOWLEDGE-SHARING ALLIANCE, OECD

Discussions during this session will focus on the institutional approaches (OECD, ESCAP, ADB) to inclusive growth with a view to identifying the dimensions of inclusive growth that are most relevant in the SEA region, followed by an open exchange on the different approaches and concepts. Each of
the three organisations has been actively involved in the Inclusive Growth agenda, and an objective of this session is to share knowledge on the issue in the specific regional context of SEA.

Presentations on OECD, ESCAP and ADB approaches to Inclusive Growth:

- Mr. Aynul Hasan, Director, Macroeconomic Policy and Development Division, ESCAP
- Mr. Paul Schreyer, Deputy Director, Statistics Directorate, OECD
- Mr. Juzhong Zhuang, Deputy Chief Economist and Deputy Director General, ERCD, ADB

Elements for Discussion

- What do the different approaches to Inclusive Growth frameworks proposed by OECD, ESCAP and ADB have in common, and how can they complement each other when applied to SEA countries?
- How can spatial disparities be best reflected in an Inclusive Growth framework alongside inequalities?
- What are the main methodological challenges, including in terms of data collection, that need to be addressed to implement Inclusive Growth in the regional context?
- How can specific regional characteristics such as informal labour markets, gender inequality be integrated into a relevant Inclusive Growth concept?

12:00-13:00 LUNCH

SESSION 3

13:00-14:45 KEY POLICY DRIVERS OF INCLUSIVE GROWTH IN SOUTHEAST ASIA IN THE POST 2015 DEVELOPMENT LANDSCAPE: SOCIAL PROTECTION SYSTEMS, EDUCATION AND SKILLS
Moderator: Bart W. Édes, Director, Social Development, Governance and Gender Division, ADB

Discussions during this session will focus on the social policies that can drive inclusive growth, and experiences with the implementation of effective inclusive policies in the region. Special attention will be devoted to identifying trade-offs and complementarities among policies.

Elements for Discussion

- How can we build an inclusive social protection system that addresses risks and vulnerabilities at all critical stages of the entire life cycle? How are such systems be best financed: progressive taxation; consumption taxes; social insurance schemes?
- What are the main challenges in terms of public sector capacities, skills and tools to design and implement Inclusive Growth policy packages?
- How can governments and development partners support the sharing of experiences and good practices in social policy implementation in the region? Can the ASEAN framework play a role?
- How can education and skills policies be better connected with development strategies and serve as an engine for decent jobs?
14:45-15:00 COFFEE BREAK

SESSION 4

15:00-17:00 KEY POLICY DRIVERS OF INCLUSIVE GROWTH IN SOUTHEAST ASIA IN THE POST 2015 DEVELOPMENT LANDSCAPE: TRADE AND LABOUR MARKETS
Moderator: Susan Stone, Director, Trade and Investment Division, ESCAP

Discussions during this session will focus on complementary policies required to foster more inclusive economic development and improve functioning of labour markets in the landscape of greater openness and regional connectivity. Special attention will be devoted to identifying trade-offs and complementarities among policies.

Elements for Discussion

• How did trade drive structural change in SEA?
• What is the impact of increased participation in production networks on wage inequality in SEA countries?
• Is there a trade-off between job protection and job creation in the export-oriented manufacturing sector?
• Are there trade policies that could improve the employment prospects of the lowest skilled workers?
• What are the main challenges in terms of public sector capacities, skills and tools to design and implement Inclusive Growth policy packages?

CLOSING SESSION

17:00-17:30: THE WAY FORWARD
Moderator: Aynul Hasan, Director, Macroeconomic Policy and Development Division, ESCAP

Discussions during this final session will reflect on the outcomes of the consultation and explore how the three institutions (OECD, ESCAP, ADB) can help to support and promote inclusive growth in the region.

• Mr. Shun-ichi Murata, ESCAP
• Mr. Rintaro Tamaki, OECD
• Mr. Juzhong Zhuang, ADB
Good morning ladies and gentlemen, and welcome to UN conference centre, as well as to UN ESCAP. I am very much honoured to be here and to be invited to deliver an opening statement. ESCAP has just finished two important events for this year, the Asian-Pacific Forum for Sustainable Development, and two weeks ago we had the 71st Commission Session, and those two events gave some very important outcomes which are very relevant to what we are discussing today with OECD and ADB. I am very much honoured to be here, at the same time that three multilateral agencies are going to collaborate, centred on sustainable development models and issues, and also persisting issues in Asia and the Pacific. So, ladies and gentlemen, welcome to this conference.

As you know, 2015 is a pretty cool year for global action: in a month or so from now, world leaders will meet at the United Nation headquarters where they are expected to adopt a range of ambitious sustainable development goals aimed at inclusive wellbeing for all within the planetary boundaries. The awaited move to a transformative post-2015 development agenda which will go beyond the Millennium Development Goals set at the turn of the last century is expected to be followed by a meaningful international agreement on climate change action. This COP is scheduled in Paris, so this year it seems that we have quite a challenging task ahead, and ESCAP and our development partners have convened a large number of high-level consultations and deliberations to define Asian-Pacific regional priorities for sustainable development, as well as financing for development, and ensure that these perspectives are reflected in a global negotiation on the post-2015 development agenda. This financing part is going to be scheduled and next month in Addis Ababa, so again, we are building up certain elements of the momentum with this exercise today.

For the Southeast Asian region, the challenge of ensuring that economic growth is inclusive and sustainable is especially pressing. While Southeast Asia has experienced a period of remarkable economic and social gains and is forging an ambitious path of regional economic cooperation and integration through ASEAN, substantial inequalities remain, as well as significant social and economic deficits. It is estimated that 30% of the sub-region – probably over 600 million of the population – still live on less than 2 dollars per day. Social spending and investment in education is often too low, making families vulnerable to shocks and imperilling future development prospects. Further, many countries still experience socioeconomic disparities along gender, urban/rural and geographical divides. Importantly, progress that has taken place often disproportionately benefits the better-off people.

ESCAP is playing a role of drawing the attention of the region’s policymakers to the need to internalize social and environmental concerns in domestic economic policy to enhance overall national welfare. This year’s ESCAP economic and social survey of Asia and the Pacific, we just call it “Survey” (our annual flagship publication), takes a fresh look at the extent of inclusive growth in our region. For the first time, Survey 2015 introduces a multidimensional index of inclusiveness of economic growth in the Asia-Pacific region, using 15 indicators covering the economic, social and
environmental dimensions of inclusive growth. For the first time, we rank the countries in the region as well.

The findings reveal mixed progress of significant reductions in extreme poverty accompanied by rising income inequality, particularly in urban areas in the major developing countries of the region, and slow growth in the availability of productive and decent employment Asia-Pacific. Developing economies also need to make progress in ensuring equality of opportunity for, in particular, women and girls by broadening access to quality education and healthcare. Given these findings, we need further dialogue between regional experts and policymakers to ensure the post-2015 sustainable development agenda takes stock of challenges facing the region and set priority for the years ahead.

As we look to the agenda for today, there are a number of major issues on which we would appreciate receiving your perspectives. What are the major drivers of economic development that are impacting the region? How do these affect the inclusiveness of growth? How can the inclusive growth frameworks, developed by ESCAP, OECD and ADB, and others, be most effectively applied to Southeast Asian countries? What policy responses can drive inclusive growth? And what can we learn from regional experiences with inclusive growth policies? I look forward to hearing your contributions to these questions. Governments in Southeast Asia should carefully consider available evidence and initiate the process of multi-stakeholder dialogue to develop their own responses to SDGs. Well, before concluding, I’d like to express my appreciation to OECD and ADB for their kind cooperation in organizing and supporting this event. I now have the pleasure to request the OECD Deputy-Secretary General, Mr Rintaro Tamaki, my friend, to make his opening remarks. Thank you.

**MR. RINTARO TAMAKI:**

**DEPUTY SECRETARY-GENERAL, OECD**

Distinguished guests, ladies and gentlemen, very good morning. I am very happy to co-host this regional consultation with ESCAP and the Asian Development Bank. I clearly remember the initiation of this concept of an Asian region inclusive growth consultation. I’m afraid he may forgot, but Mr Murata and I took a lunch more than one year ago here at ESCAP, and over a lunch of sushi, we discussed how to strengthen collaboration between our two institutions and I proposed to have a regional consultation about inclusive growth, because we had completed one in the same manner in Latin America. So he quite quickly accepted my proposal, and of course it took a very long time to make it happen. Anyhow, I am so happy to be here with you and also having the presence of ADB.

The OECD’s mission or motto is Better Policies for Better Lives for people around the world. Today’s workshop is about one of the major global challenges, that all countries around the world – not only OECD countries, not only developing countries – all countries around the world are facing rising inequality. All three organizations, ADB, ESCAP, OECD, represented here have been actively involved in the inclusive growth agenda, and our objective of this workshop is to share knowledge and experience about this issue in the regional context to foster mutual learning.

As Mr Murata said, Asia is one of the fastest growing regions in the world, representing a market of more than half a billion people. A great achievement I need to repeat, but like many countries in the
world, there is still a way to go in parts of Southeast Asia where income gains from strong growth are not always translated into shared improvements in living standards – not necessarily only income, but more multidimensional living standards for all. We are here to discuss how countries in the region can promote sustainable inclusive growth. The OECD is very pleased to be a part of this discussion.

You may wonder why is the OECD in Southeast Asia. 10 years ago even, the OECD was called as a rich man’s club – the only members in this area are Japan, Korea, Australia and New Zealand. So it is natural to wonder why the OECD is in Southeast Asia. Today, we have 34 members, it spans the globe, and includes many of the most advanced countries as well as emerging countries like Turkey, Mexico (we are headed by a strong Mexican guy), and Chile. We are also increasingly active in many regions around the world including here. Since 2007, some 8 years ago, this region has been a strategic priority for the OECD, and Indonesia is one of the key partners along with Brazil, India, South Africa and China. Last year, this focus moved up a notch, a very big notch, as we launched the Southeast Asia regional program, to further strengthen our engagement here. The OECD Development Centre – its head is here, Mario Pezzini – has 21 members from developing and emerging economies, including 3 from SEA – Indonesia, Thailand and Viet Nam – and the Centre annually publishes its regional Southeast Asia economic outlook with the ASEAN secretariat and ESCAP. The Centre is now welcoming China as a new member. The Centre measures social cohesion and it monitors its progress in many developing countries and it has produced a specific report for Viet Nam. Also, the Centre has conducted a multidimensional country review (MDCR). Its third phase has just completed a very inclusive process to discuss about the future policy challenges for Myanmar. The Multidimensional Country Review offers an avenue to policymakers on how to promote a green and inclusive, equitable, sustainable growth path. Policymakers in the Southeast Asia region can acknowledge this work to create strategic economic policy decisions in a way that benefits each and every citizen.

So now, I will just briefly explain how the OECD approaches inclusive growth. We have been looking for some time at the evolution of inequality in OECD countries, and more recently in other countries at different stages of development, particularly after the 2008 financial crisis. The OECD has developed a Framework for Inclusive Growth that recognizes that there is more to life than money. In doing so, we look at employment and health on top of income. We also look at distribution, not just an average or median, to see how everyone is doing. Our findings show that rising income inequality has gone hand in hand with an increase in inequality in education, in health status, in job security, and even in life expectancy. Our members are well aware of the risks that the inequality of opportunity poses for social cohesion – this is a serious risk for social cohesion – and even to growth itself, and many have taken steps to remedy it.

You may have read the very thick book on wealth structure analysis and inequality by the name of Capital by Thomas Picketty; it indicates that capital produces more returns than labour, and without any strong policy efforts, inequality will naturally expand. I have participated in a big symposium and one of the focuses was not only peoples’ lives but also growth itself – increasing inequality hampers the potential for growth. So this problem requires very micro-level analysis, multidimensional analysis, as well as very macro implications.

We are focusing on how this Framework on Inclusive Growth needs to be adjusted in light of different national and regional priorities in inclusive growth. One of the most striking examples is our analysis carried out in a national case study for China to provide impetus into its 13th 5-year-plan, tailoring the
framework to specific national needs, in response to a request from the Chinese government. Well-designed and carefully implemented inclusive growth policies can ensure growth is not only sustainable in the long term but also result in greater social cohesion and levels of wellbeing.

Preserving the environment is part of that equation. We have just published Green Growth in Southeast Asia; that report launched last November but I’m always talking to ASEAN people that their new integration strategy is missing a greener part. Not just focusing on trade and investment and freedom but also greening this region is quite an important challenge for us because, with any kind of analysis, the Southeast Asian region is one of the largest victims, most negatively affected by climate change, between 2030 and 2050. Pollution and environmental degradation directly affects people’s wellbeing, especially the poorest people. For most countries in the region, as economic growth continues, the demand for energy will increase, for transport and for households. It is quite important to take steps now to avoid increasing reliance on fossil fuels in the future, and we have to prepare how to decarbonise the regional economy.

Let me close by sharing with you our expectations of this workshop. Based on today’s discussion, we will produce a summary report. Its findings will then be reflected in the next edition of our flagship report on inclusive growth – you may have the publication on inclusive growth over there. The next one will be launched at the 2016 Ministerial Meeting in June. I really look forward to your active participation and contribution to today’s discussion; I am very looking forward to listening to you. Thank you very much.

MR. JUZHONG ZHUANG:

DEPUTY CHIEF ECONOMIST AND DEPUTY DIRECTOR GENERAL OF ECONOMIC RESEARCH AND REGIONAL CO-OPERATION DEPARTMENT, ADB

Thank you. Distinguished participants, ladies and gentlemen, good morning. First of all, let me join Mr Marata, Deputy Executive Secretary of ESCAP and Mr Tamaki, Deputy Secretary-General of OECD to warmly welcome you all to this regional consultation on inclusive growth in Southeast Asia. Supporting developing member countries in their endeavour to achieve inclusive growth lies at the heart of the ADB’s work. So it gives us great satisfaction to work together with the OECD and ESCAP, our long-term partners, in organizing this important event here today.

Development and rapid economic growth has been accompanied by rising inequality, as mentioned already. A recent ADB study found that about a third of developing Asian countries with comparable data, including several in Southeast Asia, experienced rising income inequality in the last two decades or so. These countries account for more than 80% of the region’s population. In Malaysia, the Philippines and Thailand, although income inequality has not risen, it has remained high, among the highest in the region. Rising inequality reduces the rate of poverty reduction. The ADB study found that if inequality had been stable, an additional 240 million Asians would have been lifted out of poverty in the past 20 years. Furthermore, we know that rising and persistently high inequality could weaken the basis of growth itself. Country experiences show that social tensions and civil conflicts are often associated with rising inequality. The ADB study found that technological progress, globalization and market-oriented reforms have led rapid growth in Asia and created enormous
opportunities, but these opportunities have not been shared equally by all. They have favoured capital over labour, skilled over unskilled workers, and city and coastal areas over rural and inland areas. This has been further compounded by unequal access to opportunity, due to institutional weaknesses and social exclusion in many countries. Rising income inequality has led to rising wealth inequality, which in turn increases income inequality. What policies do we need to put in place to ensure that we are able to achieve inclusive growth? This is by no means an easy question to answer. So this is why today this gathering is so important.

Some have argued that continued economic growth will solve the issue of rising inequality eventually, citing the well-known Kuznets hypothesis, saying that inequality tend to rise with development at a low-income stage, peak at a certain point and then decline after a country become more developed. However, we all know that the empirical evidence on the Kuznets hypothesis is mixed. More importantly, one of the drivers of a declining inequality when a country becomes more developed which underlies the Kuznets hypothesis is that political pressure for governments to adopt more redistributive policies; this pressure comes when a country becomes more developed because of the rise of the middle class. So without such policies, inequality may not decline, even as growth continues.

I think we would all agree that technological growth as globalization and market-oriented reform cannot be hindered because they are drivers of growth and drivers of productivity improvement. One approach to addressing rising inequality that has received wide support is to reduce or eliminate inequality of opportunity. This can be achieved by sustained economic growth and job creation, to increase demand for labour, so to increase the labour income share in national income. Another efficient fiscal measure to reduce inequality is investment in human capital, including greater public spending on education, healthcare, and social protection, and greater and more effective revenue mobilisation. Third, we need interventions to reduce urban/rural income gaps, and address lagging regions, to reduce spatial inequalities, which are very important and typical for many developing countries. Finally of course we need structural reforms to strengthen governments and institutions. With rising wealth inequality there is also a need to strengthen taxes which are inherently more progressive including personal income tax, property tax, inheritance tax and capital gains tax.

Supporting inclusive growth is one of three strategic priorities of the ADB’s long-term strategy called Strategy 2020. This priority was reaffirmed in its recently concluded written review. The ADB aims to help member countries to reduce inequality of opportunity through several broad areas of intervention. The first of course is to invest in infrastructure, financial sector development, and the education sector to promote high and sustained economic growth for job creation. The second is investment in education, health care, and other social services to broaden the access to opportunity. The third is to support the development of effective social safety nets, to mitigate the risk of transitory livelihood shocks and protecting vulnerable groups. The fourth is support of policy reform and capacity building for bad governance and stronger institutions to level the playing field for greater social inclusion. So we are very fortunate today to have with us a group of distinguished policymakers, practitioners, experts and members of civil society from Southeast Asia to discuss these important issues. We hope that the discussions and debate will help inform policymaking at various levels – a national level, regional level, even a global level – and I am confident that today’s consultation will help ADB, and also our colleagues from ESCAP and OECD, to better design support to the region on inclusive growth. Thank you very much.
SUMMARY RECORD

INTRODUCTION

The OECD, ESCAP and the ADB co-hosted a Regional Consultation on Inclusive Growth on 9 June 2015 in Bangkok. The objective was to engage experts and policy makers from the Southeast Asia (SEA) region in a discussion on the drivers of growth and inequality, the different approaches to inclusive growth followed by each of the three organizations, the role of social protection and educational policies, and the impact of trade on labour markets. The Regional Consultation was supported by the OECD’s Knowledge Sharing Alliance (See Annex I for the consultation Agenda and Issues note).

The region has enjoyed fast economic growth for two decades with well over a hundred million being lifted out of acute poverty, and some countries moving into the middle-income classification. Most of the discussion focused on the member countries of ASEAN, which are moving towards closer economic integration by the end of 2015, with implications for intra-regional trade and possibly migrant flows.

The experience of the ASEAN countries is relevant for the inclusive growth agenda. For all but the highest income economies, fostering growth and development has been, and remains, the economic policy priority. There is by now much less acute poverty, but for many families, especially rural dwellers and ethnic minorities, a natural disaster or other unforeseen circumstances could push them back into poverty. Their very limited fiscal resources hamper governments’ ability to implement comprehensive social safety nets, health coverage and universal high quality education up to upper secondary level, as in advanced countries. Nevertheless, ASEAN countries are aware that changing economic structures that go hand-in-hand with fast growth entail more attention and resources being paid to social policies and human capital formation for growth to remain sustainable over the longer term.

The Regional Consultation was well attended and generated lively debates between the participants on the concept of inclusive growth relevant to the region, the social and economic policies that are most needed to achieve it in the different countries, and the challenges that face implementing appropriate inclusive growth policies. The three organizations agreed that the fruitful dialogue between them generated by the workshop could profitably continue in the future.

SUMMARY OF THE WORKSHOP

SESSION 1 - TRENDS AND DRIVERS OF GROWTH AND INEQUALITIES IN SOUTHEAST ASIA
The first session was moderated by Mr. Mario Pezzini (OECD) and included panellists from Indonesia, Cambodia and Thailand. The purpose of the session was to identify the reasons for the outstanding GDP growth performance in the ASEAN area, and how and why inequalities had evolved. The key points to emerge regarding GDP growth from this session included:

Although SEA (ASEAN) countries had very different starting points, all have enjoyed strong per capita GDP growth during the past two decades, lifting well over 100 million people out of poverty, and raising some poorer countries to lower-middle-income status. Their economies proved quite resilient when faced with the global financial crisis of 2008/2009.

Participants agreed that the main drivers of growth were globalisation, technological change and market-oriented reforms accompanied with appropriate regulation. More prudent macroeconomic policies also played a role.

It was agreed that the forces that have driven strong GDP growth – and which continue to do so – should not be hindered, because despite great progress, there are still large numbers of people across many ASEAN countries that live in poverty and precariousness. Populist policies that sap productivity and prevent sound and competitive market forces from operating should be avoided.

The debate about how and why inequalities had developed during the fast growth period attracted a lot of discussion. It was pointed out that inequality levels in the area were not high in comparison with Latin American countries, and that they had fallen in a few countries where they had been high to start with. However, it was worrying that inequalities had risen in several countries and in particular that they showed no signs of falling back. While it was acknowledged that in the early stages of a growth take-off, inequality would rise as some families escaped from acute poverty, Mr. Pezzini noted that if inequalities persist, the result can be social tensions, and eventually a slackening of growth. Even poor families living in remote rural areas are now far better informed than previously about the lifestyles of the urban rich. Inequalities worldwide have tended to increase, contradicting the 1960s views of Kuznets and Williamson, who thought that there were automatic mechanisms – for example the emergence of a middle class -- or policy mechanisms –for example universal free education, progressive tax and transfer systems -- that would reduce inequalities. Furthermore, Mr. Paul Schreyer (OECD) said that recent data analysis indicated that high income inequalities in OECD countries can have a negative effect on long-term growth. One of the reasons is insufficient formation of human capital by lower income groups.¹

The main points that emerged from the debate about the causes of inequality included:

- Short supply of skilled workers because of low numbers of students completing upper secondary education, and a mismatch in skills between those who do complete and those whom SMEs wish to hire, as well as limited cross-border movements of skilled labour;
- High returns to capital invested in new industries;

¹ For further analysis see http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm
• Large informal labour markets which provide few opportunities for training, and which gave little or no social coverage against sickness or unemployment. On the other hand, they permit some labour mobility: informal does not imply illegal. What is needed is not more informality but more flexibility, so that the informal sector could become formal without facing steep increases in its costs.

• In the case of economies dependent on natural resources, limited access to the ownership of those resources by the poor reduces their mobility.

Ms. Salze-Lozac’h said that some inequality can be good for growth when, it results from capital accumulation in the hands of a few, who can invest and create companies and jobs. It becomes a problem when it interferes with mobility, when middle-class citizens feel that their opportunities to create companies and access stable well-paid jobs are limited because such jobs are increasingly assigned not on merit but according to who you know and where you come from. The existence of a large number of SMEs could and should play a major role in employment creation, especially for women, but have no or little voice in policy-making.

Experts from the different countries gave their views on causes of, and reactions to, inequality in their respective countries:

In the case of Thailand, Dr. Chalongphob Sussangkarn said that the level of income inequality in the country was high, despite many far-reaching social and economic reforms that began 50 years ago. The main reason has been a low level of education and a resultant shortage of skilled workers. Less than 50% of primary school children go on to secondary education, a proportion lower than even in Indonesia. Primary schools were omnipresent, but many children would have to travel to another village to enrol in secondary schools. The solution has been to open secondary classes in primary schools, but it is a solution that will take decades to fully impact on education levels of the workforce. Mr. Pezzini noted that the quality of education is as important as its quantity, and the PISA studies showed that overall, the performance of SEA countries lagged behind those of OECD countries.

Dr. Audrey Chia (Singapore) emphasized that they are more concerned about social exclusion: poverty is no longer a problem. Singapore is building platforms to encourage entrepreneurship in particular, involving venture capitalists, venture philanthropists, venture investors and so on to listen to people who have ideas regarding health and innovation, for example, and using IT to reduce inequality. In her view, a reliance on trickle down is not enough; you also need to encourage innovation to “bubble up” from the bottom.

Dr. Jose Ramon Albert (Philippines) noted that growth and inequality are going in different directions in different countries. Tackling this problem requires concerted efforts by both the private and the public sector.

Mr. Chheang Vanarith (Cambodia) described his country’s experience of the role of fiscal policy in addressing inequality. The government has increased revenue collection from 8% to 16.6% of GDP since the mid-1990s, and public spending has risen, principally on infrastructure and social
programmes, and especially in rural areas, where most of the poor live. The poverty rate fell from 53% to 16% by 2013. Income inequality has also fallen, with a 6 percentage point reduction in the Gini coefficient, and a 20% fall in the income ratio of the top and bottom to 3.7. Several pro-poor health programmes have been introduced and health indicators have improved, with life expectancy higher and the numbers of deaths per 100,000 live births falling from 472 in 2005 to 170 in 2014. Primary schooling is now universal and the state finances secondary education. The literacy rate is 94% and gender disparity in education is now minimal. Looking forward, the government’s goal is to raise revenue collection to 17.5% of GDP by 2018.

**Mr. Pezzini** noted that inclusive policies require a public sector capable of investing and spending. In the OECD, fiscal revenues represent 35% of GDP on average, but in SEA, it is approximately 15%, and only about 3% of revenues are spent on social protection. Official Development Assistance (ODA) has a role in strengthening the capacities of the public sector.

**Mr. Shuichi Ikeda (JICA Thailand office)** stated that Japan’s ODA Charter is for quality growth and eradication of poverty, and quality growth includes inclusiveness, especially job creation. The private sector is key here, and investment has been attracted to the region because of an improved investment climate, spurring industrialization. For example vocational training and higher education on the eastern seaboard in Thailand has been very successful and experience gained there is being applied to Cambodia and Myanmar. JICA also promotes universal health coverage. Finally, when discussing inclusiveness, one must not forget migrants, many of whom lack access to decent jobs, quality education, health care and social protection. It is important to talk about how to create jobs for these people.

**SESSION 2 TOWARDS A CONCEPT OF INCLUSIVE GROWTH**

The second session, on inclusive growth concepts, was moderated by **Ms. Lamia Kamal-Chaoui (OECD)**. In this session, each of the three organizations (OECD, ESCAP, and ADB) used PowerPoint presentations to explain their approach to defining and measuring inclusive growth, and how they can be applied in the region and nationally.

**ESCAP (Mr. Oliver Paddison)** mentioned that the latest ESCAP Survey of the region included a chapter on inclusive growth (IG) and how it has evolved over the past two decades. They have created a composite indicator of inclusive growth, based on the three dimensions of economic, social and environmental wellbeing. For each dimension, several relevant sub-indicators were chosen, and combined with equal weights. The economic indicator comprises sub-indices covering the poverty rate, Gini coefficient, the ratio of highest to lowest income quintiles, the unemployment rate and a gender component. The social indicator contains sub-indices for gross enrolment rates in secondary schooling, average years of schooling and some health indicators. The environment indicator uses those in the Millennium Development Goals. Because of data limitations, the full set of indicators could be compiled for only 5 ASEAN countries, but there was partial coverage for several more. The results show that Thailand and Malaysia have a relatively good inclusive growth record, the
Philippines and Indonesia are in the middle, and Cambodia has some way to go, especially in the education field.

The **OECD (Mr. Paul Schreyer)** takes a multi-dimensional approach at measuring inclusive growth, considering income, health and jobs that are aggregated in a measure of living standards. Distribution is captured by following the development of living standards for a particular group of households (such as the median-income households or the bottom 10%) The components of the measurement framework are then linked back to their policy determinants. As some structural policies can have different effects on income, health or jobs, the framework permits assessing the net effects of such policies.

The **ADB (Mr. Juzhong Zhuang)** defined inclusive growth as everyone being able to participate in and benefit from growth. It is acceptable for inequalities to reflect differences in effort or risk-taking, but not if they reflect differences in individual circumstances that are outside the control of individuals, such family or ethnic background, or gender. Inequality of opportunity needs to be eliminated. As a lending organization, the ADB’s inclusive growth framework focuses on the process and operation of investment and policy interventions, and has many different indicators to inform its operations.

In the subsequent debate on policy implications, many participants emphasized that a major problem in implementing IG policies is a lack of adequate public sector tax revenue, with ratios of public revenue to GDP on average about 15% of GDP, compared with more than double that in OECD countries. The problem of low public revenues is exacerbated in practice in several countries by comparatively low spending on social programmes, especially compared with spending on defence and energy subsidies.

For ESCAP, reducing income inequality is paramount because both social and environmental factors are driven by income inequality, for example access to education and health. What is most needed is job creation, for example by encouraging industrialization in rural areas, and creating forward and backward links between agriculture and industry. Strengthening financial development is also important, as SMEs face barriers to raising credit for expansion.

**Mr. Zhuang (ADB)** also noted that dealing with inequality must make GDP growth more employment-friendly, which should not mean bypassing industrialization, since country experiences show that it is difficult to develop a robust service sector without a strong manufacturing sector. Inclusive growth means that higher individual efforts should be rewarded, but income inequalities that reflect circumstances beyond the individual’s control reflect inequality of opportunity, and should be eliminated. Good governance is important.

**Mr. Schreyer (OECD)** underlined the value of a multidimensional analysis. For example the United States (US) and Australia have both done well in terms of average income growth, but life expectancy has risen much less in the US and the income inequality effect is also strong there, so that Australia has performed better on the OECD measure of well-being. Looking ahead, the OECD feels the need to have explicit measures of inequality in health, and measures of the return to education not only in
terms of income but also life expectancy and lower unemployment. He added that equality of opportunities versus equality of outcomes was an issue that kept coming up, but today’s outcomes were often tomorrow’s opportunities. The OECD is trying to make trade-offs explicit, opening an avenue to discuss how policies can address multi-dimensionality.

On other topics, Ms. Thao Hoang Phuong (Viet Nam) said that natural disasters also impact on inequality, and she added that more education does not necessarily create more employment if mobility is limited. Ms. Chia said that Singapore and Malaysia had made big progress on income levels but are paying a price in terms of chronic disease and pollution. Helping the disadvantaged should not be the monopoly off the state; the poor have their own capacities for innovation and finding frugal solutions.

Regarding indicators, Dr. Albert (Philippines) added that multi-dimensionality is important but measuring it is complicated and there are data availability problems. Different organisations come out with different measures and this can be confusing. Dr. Phouphet Kyophilavong (Laos) nevertheless felt that indices are needed to convey policy messages. Dr. Nguyen Thi Lan Huong (Viet Nam) agreed that a minimum set of indicators is necessary, that it is desirable to go beyond average household measures, and that one must look at rural versus urban, ethnic minority and gender. She agreed that good data and statistics are necessary. Mr. Paddison said that the ESCAP indices were only a tool, and agreed that countries want precise policy recommendations, but this will require more and better data. Mr. Zhuang added that the ADB has many inclusive growth indicators, but it is hard to decide on weights if they were to be combined into a composite indicator.

**SESSION 3. SOCIAL PROTECTION, EDUCATIONS AND SKILLS**

The third session was moderated by Mr. Bart Édes (ADB), who said that there were good practices world-wide, and knowledge sharing should be supported, with a possible role for ASEAN. Social protection systems address human risks and vulnerabilities at all stages of the life-cycle, as well as the impact of natural disasters to which the region is prone. A key finding from this session was that, compared with systems in place in advanced countries, social protection systems in the SEA region are limited in scope and coverage, and are under-financed. Substantial proportions of labour forces work in the informal sector, and so collecting social insurance contributions is difficult, complicating the implementation of IG policies. A question to be addressed is how best to finance social protection: progressive taxation, consumption taxes, social insurance, savings or involvement of the private sector.

Financing social programmes, especially those where costs will probably rise faster than GDP, is an issue that remains to be fully addressed in the majority of SEA countries. Public expenditure could be more efficient – some countries are reducing or eliminating energy subsidies, which mainly benefit richer households – and there is room for improvement in the design and administration of individual social (and other) programmes, for example education. More needs to be done on the taxation side. Many households pay no income tax, VAT could be introduced or increased in scope, and both property and inheritance taxes could be introduced or their rates increased.
A new development is the 2013 ASEAN declaration that covers social protection in member countries. It was agreed in the declaration that responsibility for developing and financing such systems should be national and not regional. Because of the potentially onerous long-term financial implications of such systems, it was also agreed that they should be needs-based rather than rights-based. The framework includes social insurance, social protection, social safety nets and labour market interventions. The plan is to involve not only governments but also the private sector, civil society and development partners. There will have to be a period of intensive capacity-building and consultations before actions can be implemented.

Other key points included:

- Ageing is a problem that will increasingly face SEA countries, some of whom will be ageing while still comparatively poor. Increasing contribution rates to finance higher pension burdens is politically difficult, and large informal labour markets in the SEA region exacerbate the problem. It is important to implement pension reforms, especially raising the retirement age, before the size of the older population becomes large enough to successfully oppose them. Increasing the productivity of older workers through modern technology would help keep them in the labour force longer.

- More effective spending on education is important. Ministries of education have not always adapted well to changing demands. Asian schools tend to teach information rather than creative thinking skills. They also tend to direct girls towards traditional sectors that are low-skilled and poorly paid. Education policies focus on youth; there are few programmes for training or retraining adults. Although primary education is now essentially universal, spending on higher education is limited, despite the rising demand for skilled workers.

- Migration and the treatment of migrants, both economic and political, is an issue that will likely remain for some time. ASEAN has devised a commitment to finalise an instrument to protect migrant workers that is due to come into force in 2016.

- Measuring income inequality can be achieved in several ways, before and after tax and transfers for example. The OECD also attempts to impute the value of services provided free by the state, such as education. Doing so reduces the measure of inequality.

- Provided that there is good governance in the background, channelling resources for social protection through communities gives better results, and increases the efficiency, transparency and ownership.

- Views on the importance of inequality and social protection differ between countries and over time in the same country. Some have had a strong attachment for decades to social protection, for others it is much more recent.

- Despite low revenues some countries have implemented multi-pillar social protection systems.

Mr. Quan Tuan (Viet Nam) said that his country now had a state-financed social protection system that lends money to poor workers displaced through privatization, to help them improve their human capital and become self-employed. A second pillar of social insurance covers health and unemployment risks and is financed by employers, employees and the state. There is a third pillar of
social assistance in case of disasters or other unforeseen problems. An ongoing problem is large-scale informal employment so that compulsory social insurance covers only 20% of the labour force. There is still a long way to go in terms of revenue and coverage, especially in rural and remote areas, and other problems might emerge with increasing intra-regional migration. On the issue of income inequality, he said that although Viet Nam’s Gini coefficient had remained more or less stable, the gap between the highest and lowest income deciles had risen from a multiple of 4 to one of 10.

Dr. Teguh Dartanto (Indonesia) described the country’s two-part social protection system, with social assistance targeting the very poor, especially for education, and a social insurance programme for formal sector employees. The latter is being implemented this year, although there is no final agreement yet on contribution rates by employees and employers, nor on replacement rates. There is universal health coverage in principle, introduced in 2014, and the government heavily subsidises low income groups, but take-up is voluntary in the informal sector. The fact that many families are not covered leads to higher inequality and the big challenge facing Indonesia is how to provide some sort of social protection for the large numbers of vulnerable informal sector workers.

Mr. Abdelhak Senadjki discussed how the Malaysian social protection system has a social assistance element targeting elderly people, a social insurance pillar for private sector workers and a defined contribution system for government employees. It is important that social protection systems be conceived ex ante in anticipation of emergence of problems, and not a reaction to them when they do emerge, otherwise the impact on poverty will be short-lived and the impact on public-expenditure long-lived. Management of the social funds should be in the hands of all the stakeholders, not just the government because of the scope for political meddling. Pension reforms are important, especially moving towards later retirement, because tax revenue would be higher, and spending lower. But the retirement age should not go above 65 because many workers have spent long working lives in arduous agricultural settings.

Other country-specific examples of national social programmes include the Philippines, where an issue is the numbers of youth who drop out of education at an early age, in part because public spending on education has been low in the past. Conditional cash transfers have been introduced, and while the absolute amount spent is high, the amount per family is quite low. In Korea, Mr. Yoo said that inequalities began to emerge there in the 1990s stemming from both technological changes and an ageing population. Construction of a modern social safety net began only this century, and the ageing population will have a large influence on it.

**Session 4. Trade and Labour Markets**

This session was moderated by Ms. Susan Stone (ESCAP). It was designed to explore how the growth of, and structural changes in, foreign trade both within the region, and between the region and the outside world, has affected the demand for labour, and the resulting implications for income inequality. The imminent arrival of the ASEAN Economic Community (AEC) by end-2015 will further lower barriers to intra-regional trade in goods and services, and flows of labour. It was emphasized that the AEC is not like the EU: it is a consensus-based organization with no mechanisms
for intervention. In addition, there are no region-wide policies with respect to labour standards, wages or social protection. This means that there is the potential for competition among ASEAN members across labour costs dimensions, leading to sub-optimal regional outcomes. However, insofar as flows of migrant workers increase, there could be increasing problems of providing social protection for them, as they are not usually entitled to full social cover in host countries. The roles and responsibilities of foreign investors in terms of providing reasonable wages and pension payments were also discussed. Also to be considered is that the increasing flows of migrant workers could also result in higher flows of migrant capital.

One historical example of whether trade creates inequalities or opportunities cited was that of 19th century Myanmar (then Burma). In the second half of that century Burma emerged as a major rice exporter, substantially increasing people’s incomes. The main reasons were globalisation, free flows of migration and international finance, much like the forces that are driving ASEAN growth at present. Subsequently, growth fell back and poverty became widespread. The causes were essentially poor governance by the colonial government, unambitious education policies and a lack of property rights. These lessons are still valid today. More trade and globalisation does not automatically translate into more inclusive growth: good governance is essential.

The key messages that emerged from this session were:

- Rising foreign trade can change the pattern of demand for labour, and increasing labour mobility can dampen rising income inequalities. Training and retraining labour is part of the solution, and more resources should be devoted to vocational training.
- Trade raises incomes and lifts many out of poverty. But it also seems to widen the income gap between the rich and the middle classes.
- Implementing uniform standards for some service sectors, for example hotels and restaurants, as a result of the AEC could prove difficult for the poorer countries because of a lack a capacity to implement.
- The introduction of the AEC will impact on activity in border areas, some of which are poor. As well as building ports and roads to boost trade between countries, feeder roads to the communication hubs should be built to permit those living along the border areas to be included in the higher activity.
- It is not clear how advanced and effective are the channels for cross-sectoral communication between ministries that the AEC will require. ESCAP could play a role here.
- The agricultural sector provides a kind of safety net for workers losing their jobs in other sectors. This can be especially important in economic downturns.
- The reduction of trade barriers does not automatically result in an equalization of productivity and wages across the regions and countries concerned. For example in Thailand, Bangkok and coastal regions have upper middle-income levels, but elsewhere incomes are similar to those in neighbouring countries. Some regions will decline, others will prosper. The solution is not to tax the prosperous and subsidise the losing regions. Each needs to exploit its comparative advantage.
Stronger product-market competition and competition authorities are required to spread the benefits of enhanced trade more widely. Domestic monopolies too often hinder growth and employment.

Countries whose exports are mainly of natural resources face special challenges in fostering inclusive growth. Such countries typically do not have high demand for skilled labour coming out of higher education, and ownership of natural resources is often held in a few hands or by the state. Diversifying into non-natural resource industries is important.

All ASEAN (and other) countries compete fiercely for incoming FDI flows. Foreign investors may be given incentives that are not IG-friendly, for example exoneration from paying most/any social insurance contributions and lower corporate tax rates. Countries might also keep minimum wages low to encourage FDI. This is problematic for inclusive growth.

**Closing Session**

**Mr. Aynul Hasan (ESCAP)** said that for the past 20-25 years, overcoming poverty had been the overarching development goal, and there has been remarkable progress. But there remain very many who are just above or just below the poverty level, and the challenge is to lift them all well above that level. They are probably people with less education and/or less good health, and this is where IG policies are important. The population of the SEA region plus China, India and Pakistan will be far greater than that of Japan and Europe by 2050, and they will have to be properly educated. This will entail diverting resources from economic to social investment over the medium term, and the sooner the better because of the long gestation period. If inequalities are allowed to grow, both economic growth and peace are threatened.

**Mr. Shun-ichi Murata (ESCAP)** focused on the plight of the poorest of the poor, who are the most vulnerable members of society to internal and external shocks. He wanted to ensure that the SDGs would be inclusive, and hoped that there would be continuing collaboration between the regional organizations and the OECD. They could supply more technical guidance in the area of governance, although for him, governance is about making things work, rather than measuring it with indicators.

**Ms. Lamia Kamal-Chaoui (OECD)** said that the organizations’ different approaches to inclusive growth share common values, and they can learn from each other, in particular by sharing policy experiences. SEA countries can learn much from the policy successes and failures in OECD countries. Knowledge-sharing experiences should be fostered.

**Mr. Rintaro Tamaki (OECD)** noted that IG is an area where countries at all development levels can share experiences and opportunities to learn, as can the three international organizations around the table. Each has its own approach, concept, mission and culture but can work together in a complementary manner. He felt, though, that while the debates covered skills, education, social protection, labour markets and so on, there was too little discussion of green issues.

**Mr. Juzhong Zhuang (ADB)** noted that the focus of IG is on equality of opportunity, with growth and private-sector development for job creation. Redistributive policies should be an important part of
the concept, but they need to aim at equalizing opportunities (by investing in education and health), not just incomes. Social protection is also key. All these need to be supported by good governance. The ADB is a lending organization and needs to ensure that its investment projects are bankable. Inclusive growth is a cornerstone of ADB’s long-term strategic framework and the ADB will continue to work with ESCAP and the OECD in supporting inclusive growth.

**Mr. Hasan** emphasized the importance of fiscal policy to increase the amount of resources to finance social programmes that only the state can or will provide. Increasing the tax base and ensuring that more people and companies actually pay tax will be important.

**Mr. Hamza Ali Malik** emphasized the importance of coming up with a common definition of IG and a common set of indicators when discussing policy advice. If there is a plethora of indicators, the policy-makers risk distancing themselves from the concept. **Mr. Hasan** emphasized that the definition of “inclusive growth” should be developed further to find out which aspects fall under the umbrella of this term. However, he also added that one definition is that every individual should be taken care of, and that growth should benefit every individual, but that is easier said than done.
Inclusive growth is sustainable growth, and that is why the Southeast Asian region has prioritized inclusivity in its development agenda. There is much to be proud of in Southeast Asia: its resilience to the global economic slowdown in the wake of the financial crisis; its increasingly widespread prosperity with a doubling of the middle class expected in the next 5 years; and its continued popularity as a destination for foreign direct investment. Total inflows reached a record USD 125 billion, or 9 percent of global foreign direct investment inflows in 2013. Looking forward, medium-term growth prospects are also favourable. This year’s Economic and Social Survey of Asia and the Pacific (Survey), the annual flagship publication of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), projects that the subregion will grow by 4.9 per cent in 2015, compared with 1.9 per cent for OECD economies.

The idea of inclusiveness is also pursued at the regional level with the ambitious agenda of ASEAN - the most evolved regional institution in the Asia-Pacific region and an increasingly attractive partner for non-regional countries. The end of 2015 will mark another milestone in their integration: the completion of the ASEAN Economic Community (AEC). The AEC is intended to deliver on the promise of a “single market and production base” spanning the ten countries of ASEAN. Further reductions in barriers to trade will help boost cross-border exchanges, increase the integration of regional economies in global supply chains, and support the goal of inclusion of opportunity.

Yet while Southeast Asia has a strong track record on growth and development, more efforts are needed to deliver truly inclusive results. Indeed, economic growth in itself is not enough for shared and sustainable prosperity; social and environmental deficits need to be addressed to achieve true inclusiveness. Poverty in many countries in Southeast Asia is still widespread: it is estimated that around 30 per cent of the subregion’s 600 million people still live on less than $2 per day.

This year’s Survey has, for the first time, tried to measure the “inclusiveness” of growth in the Asia-Pacific region across three critical dimensions: economic, social and environmental. The inclusiveness of growth across these different dimensions varies among the countries of the subregion. Overall, Thailand and Malaysia scored relatively strongly, partly reflecting declines in income inequality between 1990 and 2012, whereas other countries show greater need for improvement.

These challenges in achieving inclusive growth are especially important to note in 2015, a year of global action. Later in the year, world leaders are expected to adopt a range of ambitious sustainable development goals aiming at inclusive well-being for all of Earth’s inhabitants. In determining these goals, leaders will agree to a transformative post-2015 development agenda, which will go beyond the Millennium Development Goals (MDGs) set at the turn of the last century.

ESCAP supports the countries in Southeast Asia as they rise to the challenge of delivering inclusive growth through needed structural and policy reforms, tailored to the unique circumstances of each country. Indeed one of the striking features of Southeast Asia is the diversity of countries in size,
geography and income-levels. Rising household debt in some countries threatens longer-term growth prospects while others struggle to obtain access to any credit at all. At the same time, there is a need to channel the region’s financial resources into productive infrastructure investments. Further economic integration through lowering barriers to trade and investment can do much to spur growth, when supported with the right complementary policies.

A key component of these complementary policies is public spending on social protection which remains low, making families living just above the poverty line vulnerable to even small shocks. Societies will not thrive without improving people’s skills and access to affordable health care. Investment in education also needs to be increased. For example, until recently, public spending on education was less than 1 per cent of GDP in Myanmar. The literacy rate is only about 75 per cent in Cambodia and the Lao People’s Democratic Republic. Even in higher-income countries, such as Malaysia and Thailand, student performance in essential skills, such as reading, mathematics and science, are relatively weak against international comparisons.

Different kinds of deprivation tend to reinforce each other. Thus, income inequalities, by reducing access to adequate health-care and nutrition, quality education, clean drinking water and improved sanitation, affect employment prospects of the deprived, widening the gap between haves and have-nots even further, creating a vicious cycle of inequality. Deteriorating environmental conditions are also making it more difficult for socioeconomic progress to be sustained. The right set of complementary policies support an environment of opportunity essential for inclusivity.

It is critical for governments to launch integrated and well-designed packages of inclusive policies to boost opportunities for decent employment, job security and adequate access to basic services such as health, education and water while ensuring that growth does not transgress environmental limits. Equitable access to finance and energy are vital.

As Southeast Asia prepares for the post-MDGs future, inclusiveness must be integrated and mainstreamed in policymaking as a prerequisite for meeting outstanding development commitments and implementing the new sustainable development agenda. ESCAP stands ready to provide the kind of support policymakers need to identify and implement effective policy solutions to these challenges.
INEQUALITY AND INCLUSIVENESS IN KOREA

MR. SEOJUNG BAEK, POLICY ADVISOR, KNOWLEDGE SHARING ALLIANCE (KSA), OECD

Korea has witnessed outstanding economic growth during past decades; however there are many reasons to believe that its long-term prosperity is by no means guaranteed. Despite its rapid economic growth in a short period, Korea suffers from deepening inequality, weak social protection and labour market duality. Whilst Korea is not alone – similar problems face many advanced economies – these problems are more acute in Korea than elsewhere in the OECD. Fostering inclusive growth in Korea faces a number of unique challenges.

Whilst per capita income in Korea has been boosted from 12% of the US level in 1970 to 65% in 2014, productivity remains only about half as high, while working hours are among the longest in the OECD. This productivity deficit, compacted by ineffective education and vocational training, struggling small and medium-sized enterprises (SMEs), low job quality and weak social protection will still constrain growth in the coming years. Korea’s traditional growth model, depending on exports, appears to be losing its effectiveness as their trickle-down effect on domestic demand and employment has weakened.

Moreover, inequality in Korea has gradually widened due to globalisation, technical advance, an ageing population and low public social spending. Inequality in household disposable income, after taxes and transfers, has widened since the crisis in 2007-2008. The dualism in the labour market is an important source of inequality, as non-regular workers were paid only 55.7% of the pay of regular workers in 2014. A correlation between growth rates and the Gini coefficient after 1990 can be observed, demonstrating a tendency of low growth to aggravate inequality. Hence, in order to tackle income inequality, a stable foundation for growth must be established by finding new economic growth engines.

An impending period of exceptionally rapid demographic ageing, with per capita income remaining relatively low, poses the risk of increasing inequality in the future. The problems faced here interrelate: it is clear that we cannot talk about growth and inequality separately. A sustainable future economic plan for Korea must be an inclusive one.

LABOUR MARKET CONCERNS

Korea currently shows a dualistic labour market, with non-regular workers accounting for a third of total employment. Non-regular workers, in comparison to the formally employed regular workers, are significantly discriminated against with regard to coverage under social insurance programmes, with over half excluded from coverage altogether. The limited mobility between regular and non-regular employment exacerbates the unequitable consequences of dualism. The probability of moving from temporary (defined as fixed term and dispatched workers) to permanent employment over a one-year period was only 11.1% in Korea, compared to more than 50% in a number of European countries.

Low female labour force participation and an ageing population exacerbate Korea’s labour market woes. Even though the gender wage gap in Korea has declined since the 1980s, female employees are still paid only 65% of the average man’s salary, the biggest gap in the OECD. The female labour force participation rate in Korea of 55.6% compares unfavourably with the OECD average of 62.6% in
2013. Additionally, Korea has the world’s fastest ageing population coupled with a low birth rate and high life expectancy. The dependency ratio in Korea fell significantly between 1970 and 2015, where it is currently around 20%, a decline led by a fall in the child dependency ratio, from 78.2% to 19.0% between 1970 and 2015. The elderly dependency ratio was stagnant until the early 1990s and thereafter gradually increased to reach 15.2 per cent in 2010, double the ratio of 1990 (7.4 per cent). However, in the future this is projected to balloon to over 71.0% by 2050 as the current high working-age population reach retirement; the average mandatory working age set by firms is currently 57, although many workers retire beforehand.

**Public Services**

Public social spending relative to GDP is less than half of the OECD average and has had a relatively small impact on income inequality and relative poverty, particularly among the elderly, among whom there is a relative poverty rate of 49%.

A notable feature of education in Korea is the widespread participation in supplementary education. 81% of Korean primary school students are estimated to receive private tutoring. Private spending on education in Korea is around 38% of total household income, almost double the OECD average, even when excluding the large outlays for after-school tutoring. Supplementary and private education aggravates socio-economic inequalities and can be damaging to the relative educational outcomes of less well-off students.

Concerning the health care system in Korea, the National Health Insurance (NHI) system aims at universal coverage, with 63% of the population insured through their employer and 37% as insured separately. However, out-of-pocket payments (co-payments and the cost of non-covered services) by patients amounted to 4.6% of household final consumption in 2007, the third highest in the OECD area. High out-of-pocket payments are inequitable and regressive, resulting in inequality in the economic burden of illness, which aggravates poverty. The current level of protection still falls short of being adequate in terms of risk protection, thus making it important to further reduce ceilings.

**The Way Forward: Tackling Inequality**

Since the 1997 economic crisis, Korea’s social security system has been reformed to become more redistributive and comprehensive. Nevertheless, the country has experienced growing income inequality and poverty, raising future concerns about the sustainability of economic growth.

In October 2000, Korea introduced the Basic Livelihood Security Scheme (BLSS) and the Elderly Long-term Care Insurance in order to promote elderly welfare and reduce poverty. A new social assistance programme for those aged 65 or older, the Basic Old-Age Pension, was also adopted to alleviate widespread poverty among the elderly. However, many non-regular and self-employed workers are not covered by social security pension schemes, and total social welfare spending is still among the lowest in the OECD, at 9.3% of GDP in 2012.

The redistributive impact of Korea’s tax and transfer system is also among the weakest in the OECD: the difference between the Gini coefficient of income inequality before and after taxes and benefits is as much as 0.2 points on average in the OECD, but in Korea the effect was just 0.024 Gini points. Furthermore, the growing importance of technological progress as a source of market income inequality, combined with the increasing cross-border mobility of skilled workers, firms and intellectual property, is likely to exacerbate this problem even further.
To promote inclusiveness, establishing a stable foundation for growth is required. The foundation of medium- and long-term growth requires structural reform of outdated and inefficient sectors. The most urgent task is to seek new growth engines and to address the structural problems of the economy to increase the potential growth rate. It is necessary to improve productivity and the value-adding potential of SMEs, which account for 88% of employment. Activating investment in the service sector, in areas such as education, health, tourism and banking, where Korea can build competitiveness with its excellent human resources, must also be part of a strategy to develop more sustainable growth engines.

Reforming the current wage system and tackling the culture of over-working are essential components of labour market reform. Moving away from the seniority wage system to a performance-based wage system is important. A packet of labour market reforms also needs to extend the retirement age. To improve productivity, an improved working culture needs to evolve; a way to encourage this could be gradually reducing the current 68-hour working week. The government needs to strengthen policies designed to increase decent jobs, and reduce the number of non-regular employees.

Finally, the government should increase social welfare support spending up to the average level for OECD countries by strengthening the redistributive effect of taxation and finance. Welfare policy needs to focus more on low-income households, for instance by addressing the various current tax-free exemption systems. Extension of the tax base must also be a feature of tax and benefit reform.
Inclusive Growth in Post-Socialist Southeast Asia

Dr Andrzej Boleska, First Counsellor (Economic Affairs) of the Embassy of the Republic of Poland

Sipping a coffee in the lobby of a Thai-owned hotel in Yangon, Myanmar, I once had an interesting discussion with a distinguished, though now retired, Thai diplomat. He was telling me about his first trip to Europe. In 1958 he boarded a small propeller plane from Dong Muang airport, situated in the northern outskirts of Bangkok, to catch a connecting flight with a big European airliner, which would depart from Yangon, Myanmar, then called Burma. This was apparently the most convenient way. Yangon was a regional air travel hub. Almost sixty years later the situation is entirely different and it has been like this for decades. Almost everybody who travels from Myanmar to the rest of the world needs to change planes in Bangkok. This, to some extent, reflects the regional economic position of Thailand, as in 1958 it reflected the position of Myanmar. What went wrong with Myanmar then? Well, the 1962 coup d’état resulted in the installation of a new military regime. This regime was determined to build a socialist, centrally-planned and state-command economy, an economic and political project, which, as we learnt in 1989 and 1991, failed entirely throughout the world.

This project put the developmental advancements of Myanmar on hold and had profound implications for the entire Southeast Asia, not only in the political sphere (Southeast Asia was an ideological and military battleground between communist dictatorships and capitalist liberal democracies), but for most in the economic dimension. Its consequences prevail to this day. The poorest economies in Southeast Asia, in the emerging ASEAN Economic Community, are those who at some point in their recent history had installed a state-command system, to great extent eliminating private property rights and private means of production, as well as market-based economic mechanisms. Although Myanmar’s, Laos’, Cambodia’s and Viet Nam’s experiences differ, all those countries were socialist regimes and can now be categorized as post-socialist economies in transition. The sooner we realize this, the sooner we will be able to understand why their recent economic growth has been on a number of occasions far from equitable.

As far as economic transformation from central planning to market in the post-socialist world is concerned, we have witnessed two extreme models, usually represented, on one hand, by Asian economies, in particular China, and on the other, Central Europe, in particular Poland. Between 1989 and 1991 Poland quickly opened up its national economy in a swift sequence of changes in laws, regulations and systemic arrangements, broadly known as the shock therapy. Then the policy makers refocused their attention to institution building, but nevertheless did not impede the pace of reforms. From the late 1990s the policies concentrated on adopting regulations and norms of the European Union, as Poland had the ambition to join the EU. This eventually happened in May 2004. The economic transformation and regional integration brought Poland enormous benefits, which contributed to the steady increase in the standard of living. China’s leadership chose incremental and gradual changes. For the first decade of gaige kaifang (reform and opening up), it actually hoped for keeping some residues of socialism in place. In the 1990s China turned away from socialism and its political elite concentrated on creating a market economy to eventually join WTO in 2001. The main focus of the reforms has always been development. As a result, from an impoverished country on the economic world’s periphery, it has become an economic powerhouse and a major player on the international scene. Both models of economic development brought spectacular developmental successes, but the East Asian model seemed to ignore the growing disparities to a greater extent.
In post-socialist countries, the initial engines of growth, in many cases after a period of significant recession, were economic liberalization and market institutionalization. After years of suppression of economic activity, the private sector had a chance for robust growth, thus leading the economies to expand. This growth, however, was usually by no means inclusive. In fact, it had brought to relatively egalitarian socialist nations, significant wealth disparities, leaving parts of societies on the margins of social existence. Hence, economic transformation would have initially brought inequalities to the societies of Viet Nam, Myanmar, Cambodia and Laos. It would most likely also exclude some parts of their societies from reaping the benefits of systemic changes. Nevertheless, in Central Europe, socialist-style social protection was quickly replaced by the European welfare state, to somehow slow down the process of growing disparities. Moreover, a high quality of human capital allowed the majority to quickly adjust to and benefit from the new systemic reality. In post-socialist Northeast and Southeast Asia disparities continued to grow, as many adopted the so-called East Asian development model, which, as rightly pointed out by Byunghee Yoo during our OECD/ESCAP/ADB joint seminar, did not consider inclusiveness of growth important. Dwight Perkins and I in our respective analyses point out that the egalitarianism of the societies of the East Asian miracle (Japan, Korea and Taiwan) was actually a by-product of fast growth rather than a target. As a result, China, which has been imitating the policies, institutions and systemic arrangements of Korea and Japan, has never really focused on inclusive growth. This has had an impact on countries such as Viet Nam and Laos, who are trying to imitate China. At the same time, a degree of lack of educated cadres and skilled labour would impede the ability of parts of those societies to join the transition and to effectively benefit from it. Thus, despite the growth triggered by economic liberalization and market institutionalization, and new, tremendous opportunities to lift large parts of the population out of poverty, many would continue to dwell at the edge of social exclusion.

Naturally the strategy of “growth first, cohesion later” or “growth at all costs” is wrong. For growth to fulfil its developmental role it needs to be inclusive. The consequences of neglect are not only social – parts of societies remain poor and disparities trigger conflict – but also economic – poverty limits consumption, thus limits growth. The solution to the Southeast Asian post-socialist world is perhaps similar to the solution for other, richer states of ASEAN. A lot will depend on the educational base and its quality. And here’s the good news; investment, thus money, is not everything. Much depends on the entire educational system and its reform, as the example of Poland clearly indicates. According to the OECD PISA ranking, Poland’s 15 year olds have been more functionally literate than their peers in Western Europe, where the spending per student is usually twice as high.

However, the reality is that a good educational base will not be enough. There has to be an efficient mechanism of transfer of financial resources, in various ways, to those less affluent. Post-socialist Southeast Asian economies are in this respect perhaps in a privileged position, as they can build this mechanism into their institutions, which are now being formed as an element of transition. As a general guideline, the European welfare state model can come in handy. But it does not come cheap. However, the lack of focus on human capital development, social protection and social-orientated policies, which make growth inclusive, may eventually be more costly.
SOCIAL INNOVATION FOR INCLUSIVE GROWTH

AUDREY CHIA, PH.D, ASSOCIATE PROFESSOR, NUS BUSINESS SCHOOL, JOINT ASSOCIATE PROFESSOR, SAW SWE HOCK SCHOOL OF PUBLIC HEALTH, REPUBLIC OF SINGAPORE

The session notes have addressed the economic and policy aspects of inclusive growth. I attempt to complement them with a social perspective. I suggest that in addition to government and businesses, social innovation can be a vehicle for inclusive growth.

I begin with my interpretations of “relevant” and “inclusive.” I take “relevant” to mean “appropriate for the circumstances of the poor — practical and implementable.” “Inclusive” means including the poor as part of the question and part of the solution.

To drive inclusive growth, what should be given priority? Which areas urgently need attention? Which needs have been neglected? To answer those questions, we could observe and ask the poor and those who work closely with them. We often read stories of well-intentioned but unsuccessful attempts help the poor, because there is little understanding of the recipients’ circumstances. Let us not make the same mistake in the quest for inclusive growth. Let us listen to the poor and learn about their surroundings and challenges as we consider how to grow together.

Who are the poor? Three approaches to including the poor are: charity, ‘Bottom of the Pyramid’ businesses and social innovation. To charities, the poor are beneficiaries, mostly dependent or helpless. This approach is characterized by “helping the poor along”.

Bottom of the Pyramid (BoP) businesses view the poor as customers. Recognizing that the poor have small incomes, BoP businesses aim to meet their needs by providing low-cost products that improve their well-being. However, the BoP approach has been criticized for being exploitative — focusing on getting the poor to spend money, without sufficient efforts to increase their income.

Social innovators like D.Light and Kopernik see the poor not just as customers but also as co-designers of solutions: the poor are resourceful and can help themselves and others.

D.Light manufactures solar lamps. It was developed with philanthropic support,venture philanthropists Acumen and Omidyar Network; venture capitalists, and a business conglomerate, Mahindra. Living and interacting with poor communities enabled D.Light designers to develop low cost, no-frills, high quality lamps that are now sold to the poor and to affluent customers who are environmentally- and socially-minded. The chief designer of D.Light explains, “Our customers have

---

2 From DFID, Shell Foundation and USAID
3 Gray Ghost, Nexus, DFJ and Garage Technology
the final say in how our products are designed.” D.Light has enabled 50 million poor to save money on lighting, reduced their exposure to harmful kerosene fumes and increased their productive hours.5

D.Lights are delivered to geographically remote or neglected communities (“the last mile”) by organisations like Kopernik, which distribute low cost technologies like water filters, solar lamps and clean cook stoves. Kopernik, based in Indonesia, employ the poor as distributors of low-cost technologies. The poor are business partners. Trained in basic finance and technical knowledge, they become teachers, technicians and entrepreneurs. Besides improving the economic well-being of their distributors, Kopernik, D.light and other such social innovators contribute to positive economic, environmental and health outcomes for the poor.

<table>
<thead>
<tr>
<th>PERSPECTIVE</th>
<th>APPROACH</th>
<th>METAPHOR</th>
<th>ABILITY OF THE POOR</th>
<th>PRODUCTS / SERVICES</th>
<th>SUSTAINABILITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charity</td>
<td>Give to the poor</td>
<td>Help the poor along</td>
<td>Dependent/Helpless</td>
<td>For the poor</td>
<td>One-time use of funds</td>
</tr>
<tr>
<td>BoP</td>
<td>Sell to the poor</td>
<td>Customer</td>
<td>Can help themselves</td>
<td>Primarily for the poor</td>
<td>Aim to make a profit</td>
</tr>
<tr>
<td>Social innovation</td>
<td>Collaborate with the poor</td>
<td>Co-designer; Partner</td>
<td>Can help themselves and others</td>
<td>Pro-poor but may benefit others as well</td>
<td>Aim to break even or make profits that are used to sustain and scale.</td>
</tr>
</tbody>
</table>

Social innovation is inclusive because it harnesses a diversity of ideas and approaches across disciplines and industries. Chotukool, a portable fridge first developed for low-income groups by Godrej, runs on cooling technology borrowed from the computer industry. Like D.light, Chotukool was designed with input from the poor, but found a market among the well off.

The above examples show that social innovation can contribute to inclusive growth. Social innovations aim to become self-sustaining, so they depend less on other forms of funding. As with other ventures, there are varying degrees of success. Social innovation is not a panacea but can complement the efforts of government and the private sector.

A boost to inclusive growth could come from creating environments that support social innovation. Social innovation and inclusiveness can be realized by the cross-fertilization of ideas from different realms of knowledge and experience, leading to creative solutions. This can be facilitated by platforms that encourage the free flow of ideas across sectors, professions, industries and social groups. The poor should be enabled to share their ideas; to take part in implementing solutions; and to participate in evaluation. I invite us all to consider how to nurture social innovation and reap its benefits. Then, we can grow beyond inclusive to innovative and effective. ◊

---


The speed of poverty reduction in Indonesia has begun to slow down with inequality continuing to rise significantly (0.41 Gini Index in 2013). There is an urgent need that Indonesia should accelerate the rate of poverty reduction and curb rising inequalities by making growth and policies more inclusive. President Joko Widodo at the beginning of his administration launched several policy packages to build a nation with a long-run vision (Figure 2). For instance, reform to fuel subsidies is enabling the government to have more fiscal space to boost the economy through investments in infrastructure and human capital.

Figure 1. Less Inclusive Growth in Indonesia

Source: TNP2K, 2013

6 The author would like to thank Ms. Nia Kurnia Sholihah and Ms. Melly Meliyawati for their extensive research assistance.
Most of the low-income group in many developing countries like in Indonesia is extremely vulnerable to economic shocks. Crop loss, sickness, disasters and government reforms could quickly impoverish these groups. Indonesia has experience in distributing social assistance to minimize the vulnerability of these groups. For instance, cheap rice for the poor (Raskin) has been distributed since 1998 when Indonesia faced the Asian economic crisis. In 2005, the government first introduced the unconditional cash transfer (Bantuan Langsung Tunai) to mitigate the adverse impacts of the “Big Bang” fuel subsidy reform; this policy has since been implemented several times. The government then also introduced the conditional cash transfer and scholarship for the poor. These policies enable low-income groups to maintain their purchasing power as well as reducing their vulnerability.

The Social Security Law No. 40/2004 and the Social Security Agency Law No. 24/2011 are two significant milestones for the Indonesian government in their attempt to provide comprehensive social protection. Employment aims to give protection to workers during their working life, until retirement age. The new social security system includes old-age benefit, pension, working accident benefit, death benefit and health care for workers (Figure 4). Initially, the new social security system focused on the formal sector, with the exception of health care, in which Indonesia would like to achieve universal coverage by 2019. However, the “missing middle” problem in which the non-poor informal sectors remain uncovered with regards to health care due to self-enrolment will be the major challenge for this goal. The government is subsidizing almost 86.4 million poor and near-poor people to this end.
**Figure 3. Social Assistance for Poor and Near Poor**

![Social Assistance Figure]

**2005, 2008**
- BLT
  - 2005: 4.62 trillion rupiah
  - 2008: 14.1 trillion rupiah
  (source: tempo)

**2011, 2013, 2014**
- BLSM
  - 2013: 9.7 trillion rupiah
  - 2014: 5 trillion rupiah
  - 2015: 5 trillion rupiah
  (source: jawapos)
- RASKIN
  - 2011: 15.27 trillion rupiah
  - 2012: 15.7 trillion rupiah
  - 2013: 17.1 trillion rupiah
  - 2014: 18.8 trillion rupiah

**Source:** Compiled by author from many sources

**Figure 4. New Scheme of Social Security in Indonesia**

1. **Contributions**
   a. Health Benefit
      - Formal: 4%; Employee: 1%
   b. Old Age Benefits:
      - Employer: 3.7%; Employee: 2%

2. **Benefits**
   a. Health Services: Inpatient and Outpatient
   b. Old Age Benefits:
      - Lump Sum: Contribution accumulations + investment
   c. Death Benefits
      - Funeral expense + periodic compensation
   d. Working Accident Benefits:
      - Health services with ceiling floor IDR. 20.000.000
      - Compensation
      - Physical rehabilitation (prothese & orthese)
   e. Pension: Monthly benefit

3. **Eligibilities**
   a. Health Benefit: All Indonesian Citizen and foreigners who are working for more than six months
   b. Old Age Benefits:
      - 55 years old
      - Died
      - Permanent disability
      - Emigration
      - PNS/TNI/POLRI
   c. Death Benefits:
      - Died
   d. Working Accident Benefits:
      - Work related accidents
      - Died as a result of work
      - Occupational disease
   e. Pension: Pay for Contribution at least ten years before pension age (56 yo)

**Source:** LPEM FEB UI, 2015
**EDUCATION: EQUAL OPPORTUNITIES FOR EVERYONE TO BE SOMEONE**

The role of education in alleviating poverty has two channels: 1) boosting economic growth and 2) providing opportunities for vertical mobilization. In education, Indonesia has provided an inclusive policy to broaden access for everyone, regardless of his or her socioeconomic condition, to achieve education up to the graduate level. Therefore, everyone has an equal opportunity to become “someone.” Intervention starts at the early stage of human development through the conditional cash transfer scheme (PKH-Program Keluarga Harapan). The government has distributed the operational school assistance program (Bantuan Operasional Sekolah – BOS) as a subsidy program for covering operational costs of elementary school, junior high and high school students. Moreover, the Indonesian Smart Card (Kartu Indonesia Pintar – KIP) has been launched as a scholarship to enable children from poor families to have access to education. For higher education at university (undergraduate, vocational and graduate level), the government has introduced the Bidik Misi Scholarship. Complementing other scholarship schemes, the government has also created the LPDP scholarship to pursue postgraduate education at top 200 universities across the world.

*Figure 5. Equal Opportunity for Education*

**SKILL DEVELOPMENT PROGRAM**

Education and training systems in Indonesia often lack quality and relevance, leaving workers ill-prepared to meet the demands of the labour market. Skills, knowledge and experience relevant to the labour market are vital to increase productivity and the nation’s welfare. The labour force is characterized by a high proportion of workers having completed primary education, and a high proportion of unemployment amongst workers with secondary and higher education. This calls for mixed policies in skill development programs. The government promotes various programs to fill this gap: MTU (Mobile Training Unit) Training, Competency-Based Training, Community-Based Training, Productivity Training, Instructor Training, Entrepreneurship Training, Local Internship, Global Internship, Training for Trainer, Transmigration Training and the Assistance Training Program.
CONCLUSION

Indonesia is now trying to accelerate making growth more inclusive. The development path implemented by the new administration seems to be on the right track in supporting inclusive growth in Indonesia. However, Indonesia still needs stable macroeconomic conditions and sound economic fundamentals to ensure more a resilient economy any internal and external shocks. The major challenge in Indonesia is how to upgrade the education of the labour force at the same time as equipping the educated unemployed with relevant skills. Otherwise Indonesia will fail to exploit the benefit of the demographic dividend. However, policy solutions from both the former and the new administration – such as social protection programs, comprehensive scholarship for the poor, and skill development programs – promises new hope for more inclusive growth in Indonesia.
Towards a Relevant Concept of Inclusive Growth

Assoc. Prof. Dr. Nguyen Thi Lan Huong, Director General, Institute of Labour, Invalids and Social Affairs, Viet Nam

Why We Need Inclusive Growth

Growth is a target for all economies. However, there are 4 challenges inherent in our current pattern of growth, which require us to transform our approach:

- Poverty has fallen rapidly in the past, but the rate of reduction is slowing;
- Growth is often not accompanied with the growth in employment (jobless growth), especially considering quality jobs;
- Poverty is falling, but inequality is increasing;
- Growth leads to environmental pollution and ecological imbalance.

What is Inclusive Growth?

Most people conflate inclusive growth with multidimensional measurement. The main focus is on two groups of measurements: (1) seizing opportunities of better employment and income, and (2) non-income issues that are related to quality of living conditions (e.g. security, food safety, and clean water); the quality of basic social services (e.g. education and healthcare); the efficiency of support programs; the ability to cope with potential risks; the resource of social networks; and governance.

Inclusive growth is when everyone in society can participate and contribute to the growth process. On the other hand, inclusive growth ensures that the benefits of growth are shared equally with everyone, including disadvantaged groups (Klasen 2010).

A rapid pace of growth is unquestionably necessary for substantial poverty reduction, but for this growth to be sustainable in the long run, it should be broad-based across sectors, and inclusive of the majority of a country’s labour force.

This definition of inclusive growth implies a direct link between the macro and micro determinants of growth. The micro dimension captures the importance of structural transformation for economic diversification and competition, including creative destruction of jobs and firms.

Inclusive growth refers both to the pace and the pattern of growth, which are considered interlinked, and therefore need to be addressed together for achieving a high, sustainable growth record, as well as poverty reduction.

Inclusive Growth vs. Pro-poor Growth

According to Elena Ianchovichina, Susanna Lundstrom and Leonardo Garrido (PRMED), the term ‘inclusive’ growth is often used interchangeably with a suite of other terms, including ‘broad-based growth’, ‘shared growth’, and ‘pro-poor growth’.

Pro-poor growth is mainly interested in the welfare of the poor while Inclusive growth is concerned with opportunities for the majority of the labour force – poor and middle-class alike.
The Inclusive growth definition is in line with the absolute definition of pro-poor growth, but not the relative definition. Under the absolute definition, growth is considered to be pro-poor as long as poor people benefit in absolute terms, as reflected in some agreed measure of poverty (Ravallion and Chen, 2003). In contrast, in the relative definition, growth is “pro-poor” if and only if the incomes of poor people grow faster than those of the population as a whole, i.e., inequality declines. However, while absolute pro-poor growth can be the result of direct income redistribution schemes, for growth to be inclusive, productivity must be improved and new employment opportunities created.

In short, inclusive growth is about raising the pace of growth and enlarging the size of the economy, while levelling the playing field for investment and increasing productive employment opportunities.

By focusing on inequality, the relative definition could lead to sub-optimal outcomes for both poor and non-poor households. For example, a society attempting to achieve pro-poor growth under the relative definition would favour an outcome characterized by average income growth of 2 percent where the income of poor households grew by 3 percent, over an outcome where average growth was 6 percent, but the incomes of poor households grew by only 4 percent.

While the distributional pattern of growth favours poor households in the first scenario, both poor and non-poor households are better off in the second scenario. There is broad recognition that when poverty reduction is the objective, then the absolute definition of pro-poor growth is the most relevant (DFID, 2004).

Inclusive growth focuses on ex-ante analysis of sources of, and constraints to sustained, high growth, and not only on one group – the poor. The analysis focuses on ways to raise the pace of growth by utilizing more fully parts of the labour force trapped in low-productivity activities or completely excluded from the growth process. This is in contrast to the pro-poor growth literature, which has traditionally focused on measuring the impact of growth on poverty reduction by tracking various poverty measures.

**Inclusive growth and “Shared growth”**

For growth to be sustained in the long run, it should be broad-based across sectors.

Encouraging broad-based and inclusive growth does not imply a return to government-sponsored industrial policies, but instead puts the emphasis on policies that remove constraints to growth and create a level playing field for investment.

The term ‘shared growth’ can be misunderstood as implying a focus on income distribution schemes, which is why inclusive growth is preferred.

**Inclusive growth and “Sustainable growth”**

Inclusive growth focuses on economic growth which is a necessary and crucial condition for poverty reduction. A concept that encompasses equity, equality of opportunity, and protection in market and employment transitions is an essential ingredient of any successful growth strategy. This is the idea of equality of opportunity in terms of access to markets, resources, and unbiased regulatory environment for businesses and individuals.

The Inclusive growth approach takes a longer-term perspective as the focus is on productive employment rather than on direct income redistribution, hence the focus is not only on employment
growth but also on productivity growth. IG has not only the firm, but also the individual as the subject of analysis. IG is in line with the absolute definition of pro-poor growth, not the relative one.

Inclusive growth is typically fuelled by market-driven sources of growth with the government playing a facilitating role. In the short run, governments could use income distribution schemes to attenuate negative impacts on the poor of policies intended to jump start growth, but transfer schemes cannot be an answer in the long run and can also be problematic in the short run.

In poor countries, such schemes can impose significant burdens on already stretched budgets, and it is theoretically impossible to reduce poverty through redistribution in countries where average income falls below US$700 per year. According to a recent OECD study, even in developed countries, redistribution schemes cannot be the only response to rising poverty rates in certain segments of the population.

**Inclusive Growth Indicators**

**Growth and expansion of economic opportunities**

- The economic growth rate, per capita income, and employment;
- The proportion of workers with employment and decent work;
- The growth rate of labour productivity.

**Reducing poverty and inequality**

- The speed of poverty reduction;
- The distance between the poorest and the richest income (or consumption) quintile;
- The proportion of vulnerable employment in total employment.

**Access to basic social services to ensure equal economic opportunities**

- Access to education and health care services (e.g. literacy rates, teacher/student ratios, the percentage of population covered by health insurance, the proportion of people using medical insurance cards, etc.);
- Access to infrastructure and basic services (e.g. electricity coverage, access to clean water, the proportion of households possessing permanent houses by income, etc.);
- Gender equality (e.g. the gender gap in income, employment, education, access to health care services, etc.).

**Regarding Social Protection**

- Participation in insurance schemes (e.g. the percentage of labour force participating in social insurance, coverage of voluntary insurance, unemployment insurance, etc.);
- Government expenditure for social protection.

**Regarding strong social institutions**

- The voice of the representative offices of social issues in the process of building and implementing policies of economic growth.
**Achieving Inclusive Growth: Towards National Implementation Strategies for the Sustainable Development Goals**

**Shunichi Murata, Deputy Executive Secretary, ESCAP**

The historic process of defining the new post-2015 development agenda is currently being undertaken by the entire membership of the United Nations. This new agenda will put a set of sustainable development goals (SDGs) at the centre of a new far-reaching shared vision for long-term shared prosperity and environmental stewardship. The topic of inclusive growth, being debated at this OECD/ESCAP/ADB event, is thus central to the emerging universal vision for development.

The new agenda will build on the Millennium Development Goals which have done so much to concentrate the efforts of national governments and the international community on tackling poverty and improving health and education outcomes, among other areas. ESCAP’s regional report on the Millennium Development Goals (MDGs) highlights that Asia and the Pacific has achieved 13 out of the 21 targets which we track. Tremendous progress has been made in lifting millions of people out of poverty, not least in the subregion of Southeast Asia. But there remains unfinished business.

The SDGs are thus expected to continue the focus on eradicating poverty while also including critical factors such as the complex interplay among the economic, social and environmental dimensions of development. Additionally, the SDGs call for integrated approaches to development, and critically place emphasis on country ownership, and good governance. These strands must be supported by global and regional partnerships across finance, technology and data. The success of the SDGs in the Southeast Asian region will thus rest on the success of governments, with partners both international and domestic, in taking the practical steps needed for balanced and integrated implementation across the three dimensions.

ESCAP has intensified our regional consultations on sustainable development and financing with policymakers, civil society and the business community, as well as drawing on experience gained during MDG implementation. Based on these, we judge that successful national strategies will rest on a number of key elements. These are:

- National visions for development which encompass the integration of the social, economic and environmental domains. These should be inclusively developed and reaffirm national commitment to, and set the scene for, further action by stakeholders in their efforts towards integration.
- Sector-based strategies and long-term strategic planning with priority accorded to those sectors with the greatest consequence for livelihoods, quality of life and resource use, such as industrial and trade policy, agriculture policy and infrastructure development, tailored to the specific national circumstances.
- A “whole of government” approach to strategy and coordination, supported by political leadership at the highest levels, and with institutions given clear mandates for strategy and policy coordination.
- Strengthened stakeholder engagement embodying rights-based and participatory approaches in order to create an enabling environment for civil society and stakeholder ownership, engagement and accountability. Citizen engagement can also be enhanced through specific mechanisms to build societal consensus on the targets for social and environmental progress, and for monitoring progress towards these targets.
- Institutional mechanisms for monitoring and review, and for creating policy “feedback” loops so that the impact of policies can be assessed across the three dimensions. This includes enhanced statistical capacity and holistic measures of progress.
• Strategic interventions to encourage and incentivize the participation of the private sector in contributing to sustainability objectives, including the legislation of corporate sustainability reporting requirements.
• Governments in Southeast Asia should carefully consider available evidence and initiate a process of multi-stakeholder dialogue to develop their own responses to the SDGs. Successes in other subregions, like the Pacific, where SDGs are being put at the heart of national development strategies can also provide useful lessons. This event can help build further consensus on policies and be one starting point for implementing the development agenda beyond 2015.
PROMOTING BOTH INCLUSIVE GROWTH AND GREEN GROWTH IS CRITICAL FOR SOUTHEAST ASIA

MARIO PEZZINI, DIRECTOR, OECD DEVELOPMENT CENTRE

The international community is still looking back at the last 20 years while world leaders are committing themselves to the post-2015 agenda. While policy-makers see success in meeting the absolute income poverty reduction target of the Millennium Development Goals, recent displays of social discontent worldwide reveal poor individual well-being and dissatisfaction with traditional GDP-growth centric patterns. For instance, unemployment increased following the global economic crisis: 202 million people were unemployed worldwide in 2013, up 5 million from 2012 (Securing Livelihoods for All, OECD 2015). In addition, income inequality is also increasing globally both between and within countries. Today, the richest countries are more than 50 times wealthier than the poorest countries; this ratio was 10 times lower in 1820 (Securing Livelihoods for All, OECD 2015). In such a context, The OECD and its Development Centre have long stressed the need to take a multidimensional approach to development. This means going beyond the GDP lens and economic averages to consider what matters for individual lives.

In Southeast Asia, promoting inclusive growth is a major challenge. While sustained economic growth in Southeast Asia helped to lift more than 130 million people out of extreme poverty since the 1990s (PovcalNet database), income gains from strong economic growth have not translated into shared improvements in living standards for all, disproportionately favouring those with capital and skilled workers. What is also worrisome is that this growth model relies on the unsustainable exploitation of natural resources and leads to severe environmental degradation. We have therefore identified four major challenges that need to be addressed by the policy-makers to ensure that the proposed inclusive green growth model can be achieved in Southeast Asia.

First, rising inequalities in Southeast Asia, where economic growth remains strong, deserve further discussion. Household incomes generally improved in fast-growing Southeast Asia countries, but not for all. In Viet Nam, for example, the richest households gained more from economic performance than those households in the bottom 20% (Social Cohesion Policy Review of Viet Nam, 2014). The policy responses to fight the rise of inequality in well-being outcomes need to be made carefully. On the one hand, it is critical to understand what drives the changes in inequality in any country before contemplating a policy intervention. The process of structural transformation – whether encompassing shifts of the working population from rural to urban areas, from low productivity in traditional agriculture to higher productivity in other sectors, or from low productivity informal sector firms to higher productivity firms – may lead to increases in income inequalities. Yet, such shifts are part and parcel of the development process. In short, a knee-jerk response to inequality increases could inadvertently stop a nascent growth process. On the other hand, continuous rising inequalities are not necessarily a sign of successful growth policies; they can also be a sign of unsuccessful social, fiscal and environmental policies.

Second, how to adopt a far-sighted green growth strategy that can sustain the well-being of current and future generations is another crucial question for the region. Basing growth performance on natural resources exploitation results in high negative externalities and human suffering and could permanently limit the growth and earnings potential of countries. As mentioned in Securing Livelihoods for All, natural disasters and extreme weather events have increased considerably over the last three decades and are expected to increase further. For instance, more droughts will be one of the most problematic climate change impacts on feeding the planet.
Third, how the region should implement structural reforms to respond to the aspirations of the middle class and vulnerable populations is an additional challenge. Barriers for particularly vulnerable groups must be specifically addressed as part of the policy mix so that all members of society can benefit. Equally important is the development of more comprehensive social protection systems that can enable people to better manage risks and shocks throughout the life cycle is also key. Indeed, the current levels of social insurance and social protection coverage in Southeast Asia countries is usually low, these economies are also often characterised by high levels of informality, a low tax base, relatively low budget allocations for social protection and social assistance, and a highly segmented social insurance systems that mostly benefit only a small minority in the formal sector. In addition, tackling discriminatory social institutions, such as formal and informal laws, social norms, and practices that restrict or exclude women and consequently curtail their access to rights, justice, resources and empowerment opportunities is also important, as we know that gender gaps in social institutions translate into gender gaps in development outcomes.

Finally, how policy-makers should address the complexities of designing tailored policies that still address the large economic, social and institutional disparities existing at country levels in a region like Southeast Asia that is not homogeneous is a priority too. Sharing knowledge and expertise through various international organisations will be instrumental to guide policy-makers in adopting comprehensive development decisions at a regional level that also account for these individual country disparities. As captured in the 2015 Southeast Asia Economic Outlook, the success of key regional initiatives, such as reducing the Common Effective Preferential Tariffs, improving trade facilitation and accelerating the development of institutional arrangements like investment frameworks, will help promote inclusive growth at the regional level.

Therefore, Southeast Asia’s booming economy offers tremendous growth potential as well as interlinked economic, social and environmental challenges. Promoting both inclusive and green growth will allow Southeast Asia to be better positioned in the future to cope with these various challenges that may arise. Disparities can be reduced or contained through a wide range of policy interventions: implementing more efficient and future-oriented fiscal policies; allocating more resources to health, education and skills development, especially for poorer families; bolstering lagging regions, including building infrastructure to improve physical connectivity; and generating more employment-friendly economic growth, including policies to assist small and medium enterprises that account for the dominant share of the region’s economy and employment. Various OECD Development Centre-led projects and publications, at both regional and country levels, provide useful analyses to pursue ongoing consultations in these areas.
Over the last four decades, Asia has experienced unprecedented economic growth that has shifted the global economic centre of gravity to the region. Asia enters 2015 as the world’s fastest growing region, with the International Monetary Fund predicting that GDP will increase by 5.5 percent this year. But although Asia has become wealthier faster than any other region of the world, striking disparities in growth between and within countries are creating new social tensions and economic vulnerabilities. Indeed, Asia embodies a number of very twenty-first-century paradoxes. Extremes of poverty and prosperity mingle strikingly. Among the key challenges facing Asia in this new century are the issues of income distribution and inclusive growth, and their corollary, economic mobility.

According to the Asian Development Bank (ADB), income inequality has risen more than 20 percent in Asia over the last two decades. The 2015 International Labour Organization (ILO) report, *World Employment and Social Outlook*, warns of the risk of continuing, growing inequalities in an Asia where unemployment levels are on the rise, especially among the young, and where falling wage shares may threaten future growth and stability in the region. These trends may be symptoms of a slowdown in economic mobility in many Asian countries, where education may not be enough to ensure a better income than one’s parents, where quality jobs are scarce, and where entrepreneurs face a myriad of barriers that prevent them from seizing their share of the growth. By putting economic mobility in jeopardy, increasing inequality is threatening the expansion of a middle class that has been driving the growth of Asian countries for several decades, a middle class that aspires to better employment opportunities, but also to a “right” to entrepreneurship.

The debate on reducing inequality and boosting economic mobility often focuses on key factors such as ensuring equal access to education, health, basic utilities, and public services; enhancing food security; expanding fiscal redistribution; increasing government expenditures on social security and welfare; and reducing gender inequality. All are important and necessary measures. However, creating open and transparent business environments that support entrepreneurship and small and medium-sized enterprises (SMEs), so they can grow and create jobs and wealth, may be just as important in the fight for more inclusive growth. According to the ADB, SMEs comprised 98 percent of all enterprises in the Asia-Pacific, employed 66 percent of the national labour force, contributed 38 percent of GDP, and accounted for 30 percent of total export value from 2007 to 2012. Women-led enterprises have a critical role to play among SMEs, with a UN report finding that limiting the inclusion of women in the economy costs the region $89 billion a year.

However, SMEs face a host of challenges. Studies show they are more vulnerable than large businesses to unfair trade practices and non-transparent domestic regulations. Limited access to markets and technologies, non-tariff barriers to trade, poor access to finance, lack of access to business information, and difficulty hiring and training skilled employees also diminish their potential to contribute to the economy. Women entrepreneurs face additional hurdles, such as laws restricting a woman’s right to own a business, limited collateral for borrowing, difficulties filing credit applications and meeting bank requirements, limited access to formal business associations and networks, and lack of awareness of new technology, in addition to the responsibilities that come with often being the primary family caregiver.
Overcoming these barriers to improve economic mobility in Asia will require collaboration between the public and private sectors. SMEs often have fewer opportunities than large businesses to engage in high-level discussions, despite being the bedrock of local economies. Yet their input is necessary for policymakers to understand and address day-to-day business operations, as well as behind-the-border and at-the-border trade challenges. Additionally, for SMEs to be able to play their role in creating jobs and economic mobility, there needs to be targeted policies for adapted technological development, innovation, and upgrading; improved access to finance; business services for clusters of firms; and actions to overcome human resource gaps and skills mismatches.

In Southeast Asia, where informal employment and working poverty are high, growth is failing to create the decent work and economic opportunities required for inclusive development. Building the capacity of SMEs across Asia to access information, network, join forces, enter into partnerships, improve their compliance with international standards in all areas, integrate into global and regional value-chains, and build their voice to interact more effectively with the public authorities would be an effective way to create more decent work opportunities that would boost economic mobility and inclusive growth.
Providing Inclusive Social Protection in Malaysia

Dr. Abdelhak Senadjiki, Assistant Professor, Department of Economics, Universiti Tunku Abdul Rahman

The Southeast Asia region has experienced continuous economic growth, leading to significant poverty reduction. While efforts in fighting poverty have brought fruitful results, the issue of income inequality remains unsolved in the region. Empirically, it is proven that economic growth has resulted in inequalities in many countries. Inequity is seen either as a toll on growth or as a by-product of growth (Ranieri, & Almeida Ramos, 2013). Recently, a growing body of development literature has called for inclusive growth, moving towards sustainable development and social justice. Obviously, inclusive growth could be achieved with the implementation of effective social protection policy. While effective and well-designed social protection programs are a cost to the economy, the programs are seen as long-run investment in human capital (Videt, 2014). Notably, effective and sustainable social protection programs are fundamental keys towards progressive and inclusive growth.

In Malaysia, there exist multi-pillar social protection programs. In many ways, the programs have improved and enhanced the capacities of the poor and marginalised groups and have increased their resilience against economic and social risks. Nevertheless, major weaknesses in the programs’ operations and concepts require reform for improvement. Operations reform includes changes to coverage, governance and sustainability, while conceptual reform includes changes to ensure social protection is viewed as a human right rather than as government assistance. This can be achieved in eight main areas:

1. Social protection should be redefined as a human right to all citizens. The government is obliged to guarantee and provide minimum social protection to all. This obligation must be treated as a human right and should not be supplied only to the needy. Everyone needs social protection. The government has to design, implement and monitor all of its social protection programmes in accordance with human rights principles. The human rights-based approach for social protection is a good example.

2. Stakeholders should be engaged in social protection programs as co-strategists. They should participate in the process of formulating, implementing and monitoring social protection programs. The government should involve various players when designing social protection programs. This includes government institutions, market-based institutions, international donor agencies, NGOs, households and individuals. This will guarantee that all stakeholders understand their roles towards an inclusive social protection program.

3. Social protection programs should be designed as ex-ante rather than ex-post programs. Although ex-post social protection programs play a significant role in reducing poverty and enhancing people livelihoods, these programs are found to be more responsive to poverty in the short run than in the long run. Effective ex-ante social protection policies need to be designed and implemented to ensure its long run sustainable impact on the welfare of the nation’s citizens. This includes ensuring all citizens free access to higher education; building up people’s resilience against covariate and idiosyncratic risks; and providing equal opportunities to all, such as strengthening their human capital and offering equal access to productive work. This will transform the poor from recipients of aid and assistance to active players contributing to the economy as a whole. This will establish new concepts and beliefs for citizens to be responsible for their future and therefore generate independence from government. Increasing awareness of savings (educating people to save more) for the future especially
in the rural areas can also strengthen people’s capacities and instil self-responsibilities that lead to improving households’ quality of life, increasing their income and diversifying their activities.

4. Design targeted social protection programs such as universal social pension schemes for the elderly who lack retirement pensions, universal social pensions for the disabled and contributory pensions for farmers and fishermen. Other programs include encouraging active ageing beyond retirement and active disabled people in the work force.

5. Increase coverage to include the unemployed. While self-employed and informal sector employees are encouraged to contribute to the 1Malaysia Retirement Savings Scheme, the unemployed are not covered under any programs. The government should provide basic allowances to the unemployed. Other services, including providing full-time and part-time jobs, help the unemployed to open small businesses and to engage in productive activities.

6. Increase the retirement age to above 60 to coincide with the changes in the demographic profile of the country coupled with improved lifestyles that lead to longer lifespans. Malaysia has revised its retirement age three times from 55 to 56, to 58, and most recently to 60 years old. This rule, however, applies only to civil servants and is not compulsory in the private sector. With longer lifespans, a later retirement age for everyone is essential, perhaps up to 65 years old. Increasing the retirement age would benefit the government in two ways. First, the government will generate more revenues from taxes, and second, government spending will decrease as employees will have fewer years of retirement. Nevertheless, the retirement age should not be increased beyond 65 years as this would force employees to pay more and benefit less. Over 65 years of age could make it difficult for the elderly to engage in physically demanding jobs.

7. Increase transparency in the management of social protection funds. Management of social protection fund investments solely by government (politicians) without engaging other stakeholders opens doors for corruption, mismanagement and political influences. This is evidenced by a low return on investment. Social protection funds need to be equally managed between the government and other stakeholders.

In order to ensure that social protection programs do not run on a fiscal deficit, sustainable, continuous and stable macroeconomic policies are necessary. Regardless of the norms and types of social protection policies put forward, none would be sustainable without sound macroeconomic background conditions. Macroeconomic stability of the country guarantees a stable inflow of Foreign Direct Investment, promotes economic growth, increases employment opportunities and improves productivity. Consequently, salary improvements and incidentally accumulated savings for retirement increase. One might argue that higher wages resulting from higher productivity leading to larger retirement benefits may not be of much help to the overall goal of social protection. However, this could be minimised or even eliminated if the government sets a retirement benefits ceiling for high-wage workers. Similarly, it is necessary to set a retirement benefit floor for very low-wage workers to ensure that they are out of poverty in retirement.

REFERENCES:


DIFFERENT DIMENSIONS OF INCLUSIVE GROWTH SPECIFIC TO THE REGION 
AND POLICY RESPONSES DRAWING ON INDONESIA’S EXPERIENCE TACKLING 
THE ISSUE OF INEQUALITIES

LEONARD TAMPUBOLON, DIRECTOR OF ECONOMIC AFFAIRS, BAPPENAS

DIFFERENT DIMENSIONS OF INCLUSIVE GROWTH SPECIFIC TO THE REGION

There is no doubt that inclusive growth is important to help sustain economic growth and to reduce inequality. Historical data shows us that a country with high economic growth tends to produce higher inequality within its economy, if the country does not provide appropriate measures to minimize such negative side-effects of high economic growth. Inequality is a major constraint to opportunity. As highlighted in a recent article in the Atlantic, “poverty is not only a matter of near-term material deprivation—too often, it also robs low-income children of the chance to realize their intellectual and economic potential”.

When Indonesia was chair of ASEAN in 2011 we wanted to strengthen the equitable development pillar of integration. At the 19th ASEAN Summit in Bali we agreed to the “ASEAN Framework for Equitable Economic Development: Guiding Principles for Inclusive and Sustainable Growth”. The Framework emphasizes “that equitable economic development is characterized by narrowing development gaps within and between Member States, better access to opportunities for human development, social welfare and justice, and more inclusive participation in the process of ASEAN integration and community building”.

POLICY RESPONSES DRAWING ON INDONESIA’S EXPERIENCE TACKLING THE ISSUE OF INEQUALITIES.

In Indonesia we could define inclusive growth as "growth must be the result of efforts of the whole society, where the results can be enjoyed by the entire community equitably, both by high-income people and low-income people, and across all regions.”

Implementation of inclusive growth, including efforts to reduce inequality, began to be implemented at the beginning of the Suharto era in the late 1960s, where the development trilogy set as a strategy in development plans, namely: 1) encouraging high economic growth, (2) maintaining a dynamic national stability, and; (3) equitable development and results for the whole of society, and supported by eight equalization agenda which includes equity in: (1) the fulfilment of basic needs; (2) educational opportunities and health services; (3) distribution of income; (4) employment; (5) business opportunities; (6) the opportunity to participate in the construction; (7) the spread of development in all regions of the country; and (8) to obtain justice.

The government issued various policies such as the implementation of a progressive tax system, provided assistance to underdeveloped villages, credit to poor farmers and cooperatives in the countryside, as well as providing various types of subsidies to the goods needed for the production

process (subsidy seed, and others), as well as for basic consumer goods. With these efforts, Indonesia's economic growth reached an average of 6.5 percent between 1969-1998, supported by increased investment and exports. With this development, per capita income continued to rise, the poverty rate declined from about 60 percent in 1970 to around 12 percent in 1996. Unemployment was maintained at a low level; however, we did not see the necessary strengthening economic fundamentals and good economic stability. In this economic condition, Indonesia experienced a severe crisis in 1998-1999. Economic growth in 1999 contracted by 13.1 percent, inflation reached 60 percent, poverty increased to about 24 percent, and unemployment rose sharply. This indicates that the economic fundamentals are very influential for achieving inclusive economic growth goals. Therefore, at the beginning of the period after the crisis of 1998, policies focused on the recovery and strengthening economic fundamentals. The Government legislated to limit the budget deficit to no more than 3 percent, and made efforts to decrease debt to below 30 percent. Budget limitations had implications on equalisation policies and programs.

The government of President Susilo Bambang Yudhoyono (SBY, 2004-2014) focused on fostering economic growth and increasing equity by reducing unemployment and poverty to improve people's welfare. The government implemented a four-track pro-growth, pro-poor, pro-jobs, and pro-environment strategy. Economic growth was pursued by increasing investment and exports. The government set a target of reducing Indonesia’s poverty rate to between 8 and 10 percent by the end of 2014. To achieve the goal, the government implemented poverty alleviation efforts by enhancing social protection programmes, improve access to basic services by the poor, community empowerment, and inclusive development.

In regard to the above strategies, the GoI established instruments for the alleviation of poverty, divided into four clusters. The first cluster relates to integrated family-based social assistance programmes, such as health and educational assistance, and also the Family Welfare Programme (Program Keluarga Harapan, or PKH). The second cluster includes community empowerment-based poverty alleviation programmes, such as PNPM Mandiri. Rural oriented PNPM Mandiri was transformed into a specific block grant to all rural villages in Indonesia while maintaining a community driven development approach. The transformation allows rural villagers to have larger financial, administrative and development autonomies in promoting their welfare. The third cluster consists of poverty alleviation programmes targeting small and micro enterprises. The fourth cluster includes affordable housing and transportation programmes.

With these policies, economic growth in the period 2005-2014 reached an average of 5.9 percent. The number of poor and unemployed both declined from 15.97 percent and 10.3 percent respectively in 2005 to 11.37 per cent and 5.9 per cent in 2013. However, the level of inequality shown by Gini ratio increased, due to the level of income of high-income earners rising faster than low-income earners. Furthermore, the aim of distributing development opportunities to poorer regions did not happen, and economic activity continued to grow in Java and but not in other areas.

Learning from this experience, efforts to promote inclusive growth should be supported by the availability of adequate infrastructure and development, with a focus on improving infrastructure in less developed areas.

Therefore, the strategies adopted in the new government of President Joko Widodo (Jokowi) now are: to encourage high economic growth, accelerated poverty reduction and unemployment through affirmative action, giving priority to accelerating the availability infrastructure, and prioritize the development of less developed areas. Within this context, Indonesia’s medium term plan for 2015-2019 has mainstreamed inclusiveness into development policy of some priority sectors. For example,
financial sector development is supported by a sound policy in financial inclusion directed to increase people’s and SMEs access to formal financial services. Financial literacy is also a part of financial inclusion policy; where the more people having access to financial services, the better business opportunity and financing will be. To realize our economic potential and ensure political stability, President Jokowi is heavily investing in the skills, health and social welfare of our citizens for overall inclusiveness, as well as a strategy for maritime and eastern Indonesia development to improve regional inclusiveness.

Furthermore, Indonesia’s investment policy is also directed to increase inclusive investment. This will be achieved by promoting investment in productive sectors, local-resource based manufacturing sectors, and labour-intensive sectors; which in particular through encouraging more participation of Small and Medium Enterprises as well as domestic investors to invest in the country. Besides, inclusive investment will also be achieved through facilitating a more balanced investment across region in Indonesia, as for reducing the investment and development gap between regions in Indonesia. A more mutual partnership between foreign investors and local SMEs will also be a part of our inclusive investment strategy; because stronger business relationships between local and foreign investors can create a higher multiplier effect to the local economy. In addition to this, we will also encourage a process of technology and knowledge transfer from foreign investors to local businesses, as this can better ensure positive externalities from foreign businesses to the marginal community and local businesses, as well as to create more benefits to local economic development. ◊
SOCIAL PROTECTION TO PROMOTE INCLUSIVE GROWTH: THE CASE OF VIET NAM

LUU QUANG TUAN, INSTITUTE OF LABOUR, SCIENCE AND SOCIAL AFFAIRS, VIET NAM

It is widely recognized that the region of Southeast Asia achieved relatively high and sustained economic growth in comparison with other regions. This achievement narrowed the gap of GDP per capita of ASEAN as compared to that of the world, from just below 6 times in 1980 to less than 2.7 times in 2013. Furthermore, it is believed that the ASEAN Economic Community (AEC) that is going to be established in 2015 will create more economic growth opportunities for the region. However, the differences of human capital, social capital, financial capital, natural resources, fiscal resources, ethnic identities, etc., are barriers in supporting every Southeast Asian person to contribute to and benefit from economic growth. Those are, to some extent, the roots of social disparity and social exclusion. Hence, high economic growth does not fully mean inclusive growth.

One of the measures to sustain robust economic growth with greater inclusiveness in Southeast Asia is to strengthen social protection systems. With this, people – especially the poor and other vulnerable groups – will have more opportunities to access: (1) productive employment (thus improving labour productivity and narrowing income gaps between the rich and the poor); (2) income redistribution; and (3) essential, high-quality social services.

In the case of Viet Nam, the country has developed a social protection system with four components, including:

- **Active labour market programs and poverty reduction** to support people and actively prevent risks through preferential credit policies (business, education, professional training, and vocational training), employment promotion and labour market information. Over period 2010-2014, each year the economy on average created employment for 1.6 million people; the share of employment in the agricultural sector deceased from 48.7% to 46.4%; the rate of unemployment remained at under 3%; the poverty rate decreased from 9.5% to less than 6%; and the Gini coefficient remained around 0.4.

- **Social insurance** to support people in mitigating the risk of sickness, maternity, working accident-occupation diseases, old-age, death, etc., through compulsory social insurance, voluntary social insurance (since 2008), unemployment insurance (since 2009) and health insurance. Over period 2010-2014, the coverage of social insurance increased from 20% to 22% of the labour force; the coverage of unemployment insurance accounted for 17.5% of the labour force in 2014; and the coverage of health insurance increased from 60% to 71% of the total population.

- **Social assistance** to support people coping with the risks of old age, disability, orphanhood, chronic poverty, etc., through regular social assistance and un-foreseen risks of disaster, hunger, etc., through emergency relief. Over the period 2010-2014, monthly cash transfers (social pension) for older people and other vulnerable people increased from 2% to 3% of the total population.

- **Basic social services** to support people accessing basic education, primary health care, housing, clean water and information.

While implementing the Socio-Economic Development Strategy 2011-2020 and Resolution 15 on key social policies for the period 2012-2020, social protection has been reviewed and assessed annually by the government. Many targets have been achieved but some others have faced challenges, including:
- The quality of employment is low with a high share of agricultural employment and a large informal sector. The target of agricultural employment accounting for 30%-35% in 2020 is difficult to achieve. Relative inequality is not high but absolute inequality (the income gap between the richest and poorest) has widened, from 4 times in early 1990s to nearly 10 times in 2012. Ethnic minorities seem to be lagging behind the development process.
- The low coverage of social insurance implies that a large number of older people will have no pension in the future. This will put a heavy burden on state budgets, especially in the context of an aging population: the population aged 60+ has accounted for 10% of the total population since 2010.
- The state budget for social protection is rather high (5% of GDP) but because the GDP of Viet Nam is small, the basic level of social assistance still has a long way to go to meet the target of ensuring the minimum income for all beneficiaries.
- The quality of basic social services for people in remote areas is still rather poor.
- Last but not least, in the context of AEC, regional migration flows will increase in the future. This requires social protection systems in Southeast Asia countries in general and Viet Nam in particular to adjust to suit the regional framework and action plan to implement the ASEAN declaration on strengthening social protection. Particularly, social insurance programs need to be adjusted to protect not only local people but also people from other Southeast Asian nations working inside the country. ☠
**INEQUALITY AND FISCAL POLICY: THE CASE OF CAMBODIA**

**CHHEANG VANARITH, DIRECTOR OF MACROECONOMIC POLICY DEPARTMENT, MINISTRY OF ECONOMY AND FINANCE, CAMBODIA**

**CAMBODIA’S ECONOMIC PERFORMANCE**

Cambodia has achieved strong economic growth accompanied by substantial reduction in poverty and inequality. Annual economic growth has averaged about 7.7 percent over the last two decades. Although annual growth has been at a slightly slower pace than the double-digit rate in the years immediately preceding the 2008-09 global financial crisis, it is still a respectable 7 percent. Additionally, Cambodia has ensured favourable macro-economic stability, controlled inflation at a manageable level, ensured a stable exchange rate and enhanced the competitiveness of the economy by promoting the implementation of various measures in order to accelerate economic diversification, which includes increasing the productivity of agriculture, developing the rural economic base and improving the investment climate to attract investors. These factors have created more jobs for Cambodian people, especially hundreds of thousands of youth every year. According to the World Bank, Cambodia has been classified as one of the 8 Olympians of Growth because of its high and robust growth.

Deft handling of the government’s designed strategy and plan (the Rectangular Strategy and National Strategic Development Plan), fiscal and monetary policies, coupled with significant external aid and support from Cambodia’s development partners, have enabled the country to translate strong economic growth into substantial poverty reduction. Cambodia has surpassed the Millennium Development Goal for poverty reduction as it markedly reduced poverty by more than half from 53% in 2004 to 16% in 2013, making the country one of the best global performers in poverty reduction.

Many fast-growing countries in Asia, indeed globally, have for one reason or another experienced rising income inequality and social polarization in the last decade or so. Cambodia has managed to escape that trend. Overall income inequality has indeed declined in the recent past, as evidenced by a decline in the Gini coefficient from 0.34 in 2010 to 0.27 in 2013, indicating the significant decline in inequality. Another indicator of income inequality and polarization, the ratio of the income share of the richest 20 percent of the population to the income share of the poorest 20 percent of the population, has also fallen in recent years and stood at about 3.7 times in 2013.

**THE ROLE OF FISCAL POLICY**

Part of the country’s success in maintaining strong and inclusive growth could be attributed to the way in which the country implements its fiscal policy – simple tax regimes with low rates accompanied by a gradual reallocation of government expenditures towards social sectors such as health and education. The focus of government expenditure management has thus been to promote equality of economic opportunities for the people. Government expenditure covers a broad range of activities, in which public spending on education, health and social protection is brought to the fore to promote inclusive growth rather than increasing the progressiveness of tax structure.

Together with substantial support from external development partners, the reallocation of budgetary funds has contributed to major improvements in access to health and education in the country. As a result, most major health indicators have improved significantly over time. The Ministry of Health
(MoH) has been mandated to implement a number of pro-poor health financing schemes, which include user-fee exemption, the Health Equity Fund (HEF) and Vouchers for Reproductive Health Services. Poor people are also supported by the Community-Based Health Insurance Scheme. Such funding schemes provide the poor and vulnerable with access to free health services. The total government health budget expenditure as a percentage of GDP increased to 2.08% in 2014, up from 1.6% in 2013, indicating that more attention has been paid to the sector. Consequently, life expectancy for males and females reached 70 and 75 percent respectively. Additionally, the number of deaths per 100,000 live births decreased from 472 in 2005 to 170 in 2014 while the under-five child mortality rate significantly decreased from 124 per 1000 live births in 1998 to 35 per 1,000 in 2014.

In the area of education, the country has made remarkable strides in the past – especially in moving towards achieving universal primary education. The budget allocation to the sector has been on an increasing trend annually. The budget for education as a share of GDP has also increased year on year from 1.8% in 2012 to 2% in 2014 and 2.4% in 2015. Cambodian people are provided with access to free public education until secondary education level. More scholarship programs have been brought into place, which allow students to have more motivation and opportunity to pursue education to higher level. As a result, the net enrolment rate has constantly increased to 97.9% in 2014 and is expected to increase to 98.6% in 2015. This has allowed the literacy rate (15-24) to reach 93.5% in 2014, up from 92.5% in 2013. Gender disparity in education is no longer a major concern as more girls make their way to the classroom, reflecting that the gender gap has been significantly eliminated.

Cambodia’s social protection system is in its early stages, yet the basic framework is now in place. The RGC has developed and implemented National Social Protection Strategy for the Poor and Vulnerable (NSPS), which is aimed at improving the country’s human capital through the enhancement of education, health and people’s livelihoods, so as to ensure a long-term vision of economic rehabilitation and stability. The social safety net program is a main component of the NSPS that allows the RGC to respond immediately to emergencies in a comprehensive, effective and efficient manner. The NSPS complements other sectorial policies and strategies in order to support social protection, either directly or indirectly, towards the comprehensive, integrated and systematic social protection for the poor and vulnerable. Furthermore, as stated in the National Strategic Development Plan (NSDP) 2014-2018, the Ministry of Social Affairs, Veterans and Youth Rehabilitation is mandated to deliver social protection services to the public and protect specific vulnerable groups against risks, including enhancing social welfare and family welfare, developing child welfare and youth rehabilitation, enhancing welfare for people with disabilities, the elderly, former civil servants and veterans, as well as establishing social security for the general public. There are also specific safety net interventions being delivered by specific government institutions.

Overall, Cambodia’s human development index has improved in the last several years, the indication that the country has not only achieved inclusive growth but also inclusive socioeconomic development. The Human Development Index is a measure assessing long-term progress in three basic dimensions of human development: a long and healthy life, access to education and a decent standard of living. Between 1980 and 2013, Cambodia’s HDI value increased from 0.251 to 0.584 respectively.

**ISSUES AND CHALLENGES AHEAD**

Despite the gains in several dimensions of inclusive growth and development, the country has many policy challenges to address if it is to continue to consolidate past gains. Fiscal space is brought to the fore when it comes to budgetary allocation to promote inclusive growth. The government has to ensure that the budget is spent efficiently and effectively, to the extent that does not negatively impact
fiscal space and sustainability, so that macroeconomic stability can be ensured. Other factors must also be taken into consideration, such as the aging population that may encroach on fiscal space. Therefore, it is really critical to employ fiscal policy for the promotion of inclusive growth without compromising fiscal sustainability. The question to this issue is whether it is possible to pursue an inclusive yet prudent fiscal policy for Cambodia, a country with a small tax base and a poor compliance and tax culture. Furthermore, as the country is poised to graduate from a least developed economy to a lower middle-income country, a reduction in financial assistance has been gradually noticed. At the same time, the ASEAN Economic Community is on the horizon, bringing with it issues and challenges that Cambodia has to be ready to face and overcome. The AEC would undeniably pose a threat to revenue collection due to the practices of international trade agreements. Besides public finance issues, Cambodia still faces formidable obstacles in the form of limited quality education and a skills gap, hindering the country from promoting labour productivity, competitiveness and move up the value chain, as well as attract more inflow of investment to the country. Also, the investment climate remains less conducive relative to other countries in the region, undermining the attraction of investment.

**Recommendations**

Despite great efforts made, challenges inevitably remain. In response to the aforementioned issues and challenges, Cambodia is required to step up its efforts to undertake further reforms in order to reap maximum benefits from the forthcoming economic integration. Those reforms may include improving the investment climate, continuing to invest in human resource development by strengthening education and skill development to foster Cambodia’s competitiveness in the region and attract investment into the country. What’s more, strengthening revenue mobilization is pivotal to safeguard fiscal space in order that fiscal sustainability and macroeconomic stability can be ensured. The Revenue Mobilization Strategy 2014-2018 has been adopted and implemented, which requires regular monitoring and evaluation to ensure its success. Meanwhile, to ensure the effectiveness and efficiency of public spending to maintain the sustainability of fiscal space, it is essential to streamline institutional frameworks and mechanisms for better public service delivery. There is also a need to promote ease of doing business by improving the regulatory framework, developing infrastructure, streamlining customs procedures, and strengthening logistic efficiency.

**Conclusion**

In sum, Cambodia has made significant progress in sustaining not only strong growth but also highly inclusive and broadly shared growth. Yet, past success is no assurance of future success. Achievements thus far are albeit impressive, but Cambodia should not be complacent: the road ahead for the country could be bumpy, underscoring the need to push for more sustained efforts and comprehensive reforms to keep up the good record that will make its growth as inclusive as possible. This will enable the broadest swathe of society, including the destitute and vulnerable, to enjoy the fruits of growth.
PARTICIPANT BIOGRAPHIES

OPENING SESSION

MR. SHUN-ICHI MURATA, DEPUTY EXECUTIVE SECRETARY, UNITED NATIONS ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC (UNESCAP)

Mr. Shun-ichi Murata, a graduate of Faculty of Law and Politics, Kwansei Gakuin University in Nishinomiya, Hyogo, holds graduate degrees in Public Administration from Harvard Kennedy School as well as in Political Science/International Relations from George Washington University. After his assignment at UNDP Uganda from 1981 to 1983, he completed his training at UNDP headquarters in New York and in UNDP Ethiopia, and worked at UNDP Sudan and the headquarters in New York. He then served as Assistant Resident Representative of UNDP China from 1989 to 1992 and Deputy Resident Representative of UNDP Mongolia from 1992 to 1995. With UNDP’s mid-career sabbatical support for research and education, he obtained a professional degree in Public Administration (MPA) from Kennedy School of Government, Harvard University in 1996. Mr. Murata served as Deputy Resident Representative in the Philippines from 1996 to 1999. From 1999 to March 2002, he served as UN Resident Coordinator and UNDP Resident Representative in Bhutan. From 2002 to 2006, Mr. Murata had been appointed as university professor of School of Policy Studies as well as Director/Faculty Chair, Research Centre for International Human Development, Kwansei Gakuin University in Sanda Campus, Hyogo. He has also served as Programme Coordinator for Japanese volunteers for United Nations Information Technology Service (UNITeS). Mr. Murata returned to UNDP and served as Director of UNDP Tokyo Office in November 2006 until July 2011.

MR. RINTARO TAMAKI, DEPUTY SECRETARY-GENERAL, OECD

Mr. Rintaro Tamaki was appointed Deputy Secretary-General of the OECD on August 1, 2011. His portfolio includes the strategic direction of OECD Policy on Environment, Development, Green Growth, Taxation, Policy Alignment for Transition to a Low-Carbon Economy along with representing the OECD externally on Financial Issues including the FSB. Prior to joining the OECD Mr. Tamaki, a Japanese national, was Vice-Minister of Finance for International Affairs at the Ministry of Finance, Government of Japan. During his prominent 35-year career at the Japanese Ministry of Finance, Mr. Tamaki has worked on various budget, taxation, international finance and development issues. He worked as part of the OECD Secretariat from 1978 – 1980 in the Economic Prospects Division and from 1983 – 1986 in the Fiscal Affairs Division of the Directorate for Financial, Fiscal and Enterprise Affairs (DAFEE). In 1994 Mr. Tamaki was posted to the World Bank as Alternate Executive Director for Japan and in 2002 as Finance Minister at the Embassy of Japan in Washington DC. He then became Deputy Director-General (2005), before becoming Director-General (2007) and subsequently Vice-Minister for International Affairs (2009) at the Ministry of Finance. Mr. Tamaki graduated in 1976, L.L.B.
from the University of Tokyo and has held academic positions at the University of Tokyo and Kobe University. He has published books and articles on international institutions, the international monetary system, development, debt and taxation.

**Mr. JuZhong Zhuang, Deputy Chief Economist and Deputy Director General of the Economic Research and Regional Cooperation Department, Asian Development Bank**

Mr. JUZHONG ZHUANG joined Asian Development Bank in 1997, and is currently Deputy Chief Economist and Deputy Director General of the Economic Research and Regional Cooperation Department. He has written extensively on Asian development, and his latest publications include two co-edited books, Inequality in Asia and the Pacific, published in 2014, and Managing Middle Income Transition: The Challenges Facing China, published in 2015. From 1992-1997, he was a Research Officer of the Development Economics Research Program at the London School of Economics. He holds a PhD in Economics from the University of Manchester.
SESSION 1: TRENDS AND DRIVERS OF GROWTH AND INEQUALITIES IN SOUTHEAST ASIA

MS. VÉRONIQUE SALZE-LOZAC’H, CHIEF ECONOMIST AND SENIOR DIRECTOR, ECONOMIC DEVELOPMENT, THE ASIA FOUNDATION

Ms. Véronique Salze-Lozac’h joined The Foundation in 2003, after working for both the public and the private sector on private sector development, foreign investments, business environments and policy reforms. Based in Thailand, she oversees strategic planning for the Foundation’s economic activities and provides support to programs across 18 Asian countries. She designs and implements research and programs in three core areas: policy reform and business environment, regional economic cooperation, and support to entrepreneurship (including women entrepreneurship), with a special focus on micro, small and medium enterprises. She graduated from the University of la Sorbonne and the Institut of Political Studies in Paris (Sciences-Po Paris) and pursued her PhD studies in the US, at the University of Pittsburgh.

MR. SHUICHI IKEDA, CHIEF REPRESENTATIVE, JICA THAILAND

Mr. Shuichi Ikeda, graduated from Faculty of Agriculture, Tsukuba University in 1983 and took Master degree in Environment Science from Tsukuba University in 1985. After he joined Japan International Cooperation Agency (JICA) in 1985, he has worked in various departments of the head office and also worked in overseas offices such as Myanmar, USA and Laos. He was Deputy Director General of Global Environment Department from 2011 to 2013. He is now Chief Representative of JICA Thailand Office since May 2013.

MR. CHHEANG VANARITH, DIRECTOR OF MACROECONOMIC POLICY DEPARTMENT, MINISTRY OF ECONOMY AND FINANCE, CAMBODIA

Mr. Vanarith Chheang is Director of Macroeconomic and Fiscal Policy Department, Ministry of Economy and Finance, Cambodia. He received a Bachelors’ Degree in Business Administration from University of Georgia, and a Dual Master’s Degree in Public Policy and Economics from Georgetown University, Washington DC, U.S.A. As Director Macroeconomic and Fiscal Policy Department, his role involves preparing annual national budget formulation, public expenditure management, and macroeconomic and sectoral policymaking. He is also in charge of leading
the forecast on public revenue and advising on the annual budget allocation to line ministries to ensure budget efficiency and fiscal sustainability. In addition, he also supervises the three divisions, namely Fiscal Division, Macroeconomic Division and Sectorial Division, which are responsible for analyzing and conducting research on social-economic issues and providing recommendations to policy-makers within the ministry as well as at other government institutions.

**Dr. Chalongphob Sussangkarn, Distinguished Fellow, Thailand Development Research Institute**

Dr. Chalongphob Sussangkarn is currently Distinguished Fellow of the Thailand Development Research Institute (TDRI), a private non-profit policy research institute based in Bangkok. He obtained his Bachelor’s degree through Ph.D. in economics from Cambridge University, UK. After obtaining his Ph.D., he taught in the department of economics of the University of California, Berkeley for two years (1977-79), then worked at the research department of the World Bank in Washington D.C. for six years (1979-1985). He returned to Thailand to join TDRI in 1985. Dr. Chalongphob was appointed President of TDRI in 1996, a post he held until he was appointed Thailand’s Minister of Finance in March 2007. After ending his duties as Minister of Finance in February 2008, he rejoined TDRI. Dr. Chalongphob sits on the advisory panel of a number of journals, such as the Asian Economic Policy Review (Japan Center for Economic Research), and the Asian Economic Papers (MIT Press). In 2004, Dr. Chalongphob was awarded the National Outstanding Researcher Award for Economics from the National Research Council of Thailand.
SESSION 2: TOWARDS A RELEVANT CONCEPT OF INCLUSIVE GROWTH FOR THE REGION

PHOUPHET KYOPHILA VONG, ASSOCIATE PROFESSOR AND VICE-DEAN OF THE FACULTY OF ECONOMICS AND BUSINESS MANAGEMENT, NATIONAL UNIVERSITY OF LAOS

Dr. Phouphe Kypphilavong is Associate Professor and Vice-Dean of the Faculty of Economics and Business Management at the National University of Laos. He received his PhD in economics from Kobe University in 2003 and has been carrying out research on macroeconomic management issues, economic integration, energy, natural resources and environmental issues, and poverty in Laos. Dr. Kyophilavong has published several journals and book chapters such as International Review of Economics and Finance, Economic Modelling, Renewable and Sustainable Energy Reviews, Global Business Reviews, Journal of Cleaner Production and others. He has directed numerous projects in his areas of expertise and has worked closely with national organizations, universities and government agencies in Laos, and with international organizations such as Economic Research Institute for ASEAN and East Asia (ERIA), the Asian Development Bank (ADB), ADB Institute, Japan International Cooperation Agency (JICA), UNDP, Mekong River Commission (MRC), IUCN, World Trade Organization (WTO) and World Bank. He is also editor in chief of the journals “Lao Journal of Economics and Management (LJEM)”. LJEM is leading journal in economics and business in Laos. He serves as an editorial board member of Journal of Economics and Financial Modelling, International Journal of Economics and Empirical Research. He was also visiting scholar at Pukyong National University, Nagoya University, University of Laval, Nanyang Technological University, and he also received Fulbright U.S.-ASEAN Visiting Scholars to Department of Economics at Harvard University.

DR. AUDREY CHIA, ASSOCIATE PROFESSOR OF MANAGEMENT & ORGANIZATION AND CO-DIRECTOR, ASIA CENTRE FOR SOCIAL ENTREPRENEURSHIP & PHILANTHROPY, NUS BUSINESS SCHOOL

Audrey is Associate Professor of Management & Organization and Co-Director, Asia Centre for Social Entrepreneurship & Philanthropy at the NUS Business School. She holds a joint appointment at the Saw Swee Hock School of Public Health at the National University of Singapore. Audrey has a growing interest in cross-sector collaborations in health delivery. She currently collaborates on research with colleagues in Public Health on the integration of workplace safety and health in Singapore. She is generally interested in leadership and change, especially stakeholder management and leading in times of crisis. She co-directs the Healthcare Leadership Programme for the NUS Initiative to Improve Health in Asia (NIHA) and is on the faculty of the UCLA-NUS Executive MBA programme, where she offers a module on International Management Strategies. Convinced that business academics must relate to the world of business, Audrey has consulted for and given talks to companies such as AES, Bridgestone, Dentsu, Total, Catalyst, DHL, Jones Lang LaSalle, L’Oreal, McDonald’s, Maersk, Mitsu, Panasonic, Samsung, Telenor, Royal Brunei Airlines, PT Astra and Unilever. She is also
directs NUS Business School’s Leadership Development Programme. She has received three University awards, two Faculty awards and numerous commendations for excellence in teaching.

**Mrs. Nguyen Thi Lan Huong, Director, General, Institute of Labour Science and Social Affairs (ILSSA), Ministry of Labour, Invalids and Social Affairs (MOLISA), Viet Nam**

Mrs. Nguyen Thi Lan Huong holds a Doctorate in Labour Economics, National Economic University, Viet Nam (2002-2005), MBA, University of Technology of Sydney, Australia (1995-1997), Bachelor of Economics of Labour, Economic University Of Sofia, Bulgaria (1978-1984). She has almost 31 years experiences of Researches and Consultancies in the following topics: Labour Market development, Social Protection, Poverty Reduction.

**Dr. Jose Ramon G. Albert, Former Chief Statistician, Philippines**

Dr. Jose Ramon G. Albert is a professional statistician who has written on topics spanning poverty measurement and analysis, education statistics, agricultural statistics, climate change, survey design, data mining, and statistical analysis of missing data. He was a former Chief Statistician of the Philippines, serving as Secretary General of the now Defunct National Statistical Coordination Board. He is currently a Senior Research Fellow of the Philippine Institute for Development Studies, a think tank. He is the current President of the Philippine Statistical Association, Inc., and an elected member of the International Statistical Institute, and the National Research Council of the Philippines. He has vast experience working with international organizations, including the United Nations Statistical Institute for Asia and the Pacific, the United Nations Development Programme, the United Nations Children’s Fund, the United Nations Fund for Population Activities, the World Bank Group, the Asian Development Bank (ADB), the Partnership in Statistics for Development in the 21st Century (PARIS21) and the United Kingdom’s Department for International Development. He drafted the most recent 2014 ADB report on Framework for Inclusive Growth Indicators. He has considerable research experience in development policy, especially on economic growth, poverty, and inequality, education, social protection, macroprudential monitoring, and climate change. He has a PhD in Statistics from the State University of New York at Stony Brook. He has had work experiences in the twenty economies spanning South East Asia, East Asia and the Pacific, South Asia, the Middle East and Africa: Afghanistan, Bangladesh, Bhutan, Cambodia, Ethiopia, Ghana, Hongkong Special Administrative Region, Indonesia, Iran, Lao PDR, Malawi, Malaysia, Mongolia, Myanmar, Papua New Guinea, People’s Republic of China, Philippines, Qatar, Sierra Leone, Thailand.
SESSION 3: KEY POLICY DRIVERS OF INCLUSIVE GROWTH IN SOUTHEAST ASIA IN THE POST-2015 DEVELOPMENT LANDSCAPE – SOCIAL PROTECTION, EDUCATION & SKILLS

DR. TEGUH DARTANTO, HEAD OF POVERTY AND SOCIAL PROTECTION RESEARCH GROUP, INSTITUTE FOR ECONOMIC AND SOCIAL RESEARCH, FACULTY OF ECONOMICS AND BUSINESS, UNIVERSITAS INDONESIA

Teguh Dartanto, Ph.D, is currently a Director of Undergraduate Program in Economics, Faculty of Economics and Business, University of Indonesia and a Head of Poverty and Social Protection Research Group, Institute for Economic and Social Research (LPEM), University of Indonesia. His specialization is in poverty analyses, development economics, applied general equilibrium, and microeconometrics. Some of his research outcomes have been published at reputable journals such as Energy Policy, Bulletin of Indonesian Economic Studies, the Singapore Economic Review, Margin-Journal of Applied Economics. He is currently conducting several researches on universal health coverage in the presence of informality, a sustainability of premium payment, financial analysis of social security in Indonesia. Beside at University of Indonesia, Dr. Dartanto actively engages several research collaborations and consultations with many international counterparts such as Australian National University, Nagoya University, Asian Development Bank, ERIA, UNDP and OECD. Before starting his career at University of Indonesia, Dr. Dartanto was a research associate at Japan International Cooperation Agency (JICA) Research Institute in Tokyo and starting from April 2015, he becomes a visiting scholar at this institute. Prior to that, he received Monbukagakusho Scholarship to pursue his master of Economics at Hitotsubashi University and then his Ph.D in International Development at Nagoya University.

MR. BYUNG HEE YOO, DIRECTOR, SOCIO-ECONOMIC POLICY DIVISION, MINISTRY OF STRATEGY AND FINANCE (MOSF), KOREA

Mr. Byung Hee Yoo is Director, Socio-Economic Policy Division, Ministry of Strategy and Finance (MOSF), Korea. In February 2015, Byung Hee was assigned to lead a Socio-Economic Policy Division, in charge of coordinating social welfare policies including public pension schemes and social safety net. Before this new assignment, he was a director for climate finance negotiation and the Green Climate Fund after he had come back from the IFC where he had worked on the secondment for three years since 2010. Prior to joining IFC, Byung Hee worked in various departments in MOSF including International Finance, Financial Policy, Economic Policy and Tax bureaus. He conducted several research on economic development, income inequality, labor market reform and so on. Byung Hee majored Economics in Seoul National University (SNU) and he holds masters of Public Administration, Economics and Finance from SNU, University College London and London Business School, respectively.
Dr. Abdelhak Senadjki, Assistant Professor of Economics at the Faculty of Business and Finance, Universiti Tunku Abdul Rahman (UTAR), Malaysia.

Dr. Abdelhak Senadjki is an Assistant Professor of Economics at the Faculty of Business and Finance, Universiti Tunku Abdul Rahman (UTAR), Malaysia. He obtained his PhD from Universiti Sains Malaysia (USM) in 2013 with a thesis title ‘Vulnerability to Poverty: A Study of Rural Population in Kelantan and Terengganu, Malaysia’. He received his Masters of Economic Management in 2008 from the same Universiti and Bachelor Degree of Economics in 2003 from University of Algiers. He was awarded the USM fellowship from 2010 to 2013 and has served as an academic researcher for that period. His research interests include Energy Economics, Economic Development focusing on the issues of Income Inequalities, Poverty and Vulnerability, Poverty in Islamic Economics, Risks, Risk Management and Coping Strategies and Social Protection. As part of his interests, Dr. Abdelhak Senadjki believes that the key to a successful economy is the openness to globalization. Currently, Dr. Abdelhak Senadjki is involved in four research grants namely The Welfare of Elderly: Yesterday, Today and Tomorrow, Closing the Coverage Gap for Old Age Protection in Malaysia: The Case for Universal Pension, Spatial Inequalities: Framing Phenomena, Formulating Policies” and Relationship between the Bio-Ethanol Production and Agricultural Commodity Prices: The Case of Thailand”. Dr. Abdelhak Senadjki has published widely in various local and international refereed journals; ISI and Scopus, chapters in book and research papers on the issues of poverty, vulnerability and social protection. He is currently a member of the Advisory Board for the Market Forces Journal and reviewer for a number of refereed journals such as the Journal of Environmental and Resource Economics, Journal of Economic Psychology, Journal of Islamic Accounting and Business Research, Oeconomia Copernicana, Equilibrium: Quarterly Journal of Economics and Economic Policy, Journal of Environment, Society and Space (IJESS) and the Econometrics Review.

Luu Quang Tuan, Deputy Director of the Institute of Labour Science and Social Affairs, Vietnam.

Luu Quang Tuan is Deputy Director of Vietnam’s Institute of Labour Science and Social Affairs. He has obtained the post graduate diploma of population and sustainable development from the Centre for Development Studies in India; the Master degree of Economics from Lund University in Sweden. Tuan’s interests include labour economics and social protection.

Ms Rodora Barbaran, Director of Socio-Cultural Cooperation Directorate, ASEAN Secretariat
SESSION 4: KEY POLICY DRIVERS OF INCLUSIVE GROWTH IN SOUTHEAST ASIA IN THE POST-2015 DEVELOPMENT LANDSCAPE – TRADE AND LABOUR MARKETS

MR. SANTI CHAISRISAWATSUK, DIRECTOR OF THE CENTRE FOR DEVELOPMENT ECONOMICS STUDIES, GRADUATE SCHOOL OF DEVELOPMENT ECONOMICS, NATIONAL INSTITUTE OF DEVELOPMENT ADMINISTRATION

MS. THAO HOANG PHUONG, COUNTRY DIRECTOR, ACTIONAID VIET NAM

With 18 years’ experience working in the field of Development, Environment Conservation, and Education, Mrs. Thao brings all her management experiences, particularly in strategic planning and operation, monitoring and networking, partnership to the development of ActionAid. Mrs. Thao started her career at a multinational technical engineering consulting company. She had extensive experience in managing and implementing development projects funded by The World Bank, Asia Development Bank, Japan International Cooperation Bank and many other international financial institutions. Afterwards, she worked for The World Wide Fund for Nature (WWF) under the trans-border conservation program, focusing on conservation work at the Vietnam-Laos border zone. She has been working at ActionAid since 2002. She has worked in Fundraising, and then took a position as Program Manager, Theme Manager (2002-2005) at ActionAid Vietnam, Program Advisor at ActionAid Thailand (2005), and ActionAid International’s Governance Coordinator in Asia (2006-2010). She returned to Vietnam in August 2010 as the Country Director of AAV. Mrs. Thao contributed significantly to promote the mission, value, identity and location of ActionAid in both nationally and internationally. She also implemented the first ActionAid’s policy campaign in Vietnam, taking sides with a half of a million poor farmers in the Mekong Delta region affected by unjust decisions that the United States Department of Commerce to impose countervailing dumped duties (POR) on Vietnam catfish. As a loyal supporter for HRBA, Mrs. Thao conducted many training courses, contributed in numerous reports and publications on just
and democratic governance, budget analysis and HRBA for development workers, the media organization, parliamentarians and youth in Vietnam, Asia and other Africa countries. In 2012, she was awarded the Friendship Medal of the Vietnam Union of Friendship Organizations for her contribution to promote friendship and solidarity among peoples in the southern hemisphere and the world. In 2013, she was elected as Member of International NGO Information Center in Vietnam, the information systems of nearly 900 international NGOs in Vietnam. At the same time, she has been an Invited Lecturer of the Governance and Public Administration at the Post Graduate Faculty of the National Economics University.
OTHER PARTICIPANTS

DR. ANDRZEJ BOLESTA, FIRST COUNSELLOR (ECONOMIC AFFAIRS) OF THE EMBASSY OF THE REPUBLIC OF POLAND

Dr Andrzej Bolesta has a PhD from the London School of Economics and Political Science (LSE), and an MSc from the University of Oxford. He also studied at Warsaw School of Economics, was a visiting scholar at the China Center for Economic Research, Peking University and conducted his research at Yale Center for International and Area Studies, Yale University. He is the author of China and Post-Socialist Development – the first comprehensive analysis of how the East Asian development model has influenced China’s transformation from central planning to market. The book has been published by the Policy Press, UK. He also edited a volume entitled From Central Planning to Market: Poland’s Transformation in a Comparative Perspective and the Lessons for Myanmar. Currently, he is a senior diplomat (First Counsellor) responsible for economic affairs in the Polish embassy in Bangkok (covering Thailand, Myanmar, Laos and Cambodia). In this capacity, he has engaged in activities concerned with Myanmar’s economic transformation, by providing technical advice and facilitating transfer of knowledge and expertise. Prior to his current position, he was the Head of the Economic Department and then Economic Counsellor of the Polish embassy in Beijing (responsible for China and Mongolia). In Poland, he worked as a university lecturer, specialising in development and transformation of East Asian economies. He also advised the Head of the Parliament and was the Research Assistant to the former Deputy Prime Minister and the Minister of Finance – one of the architects of the Polish economic reforms. He wrote and edited eight books and around 20 articles on economic development, Asian economies and systemic transformation, which were published in English, Polish and Chinese. He was an evaluator of Poland’s National Development Plan 2007-2013. He has been a guest lecturer at universities and government institutions in Poland, China, Mongolia, Cambodia, Thailand, Laos and Myanmar. His main interest lies in the economies of East Asia – the region in which he has spent the last eight years.

MR. APICHAI SUNCHINDAH, FREELANCE DEVELOPMENT EXPERT

Mr. Apichai Sunchindah has been a development specialist spanning over three decades. He started his career as a researcher on inter-disciplinary development-oriented projects at the Asian Institute of Technology, situated on the outskirts of Bangkok, Thailand. He then held assignments with several Bangkok-based development cooperation agencies – of Australia, the United States, Switzerland and most recently Germany. He also spent about half of his professional career working with the Association of Southeast Asian Nations (ASEAN) Secretariat and the ASEAN Foundation, both located in Jakarta, Indonesia, as well as the Office of the United Nations Resident Coordinator in Bangkok, Thailand. Mr. Sunchindah has been a keen and continuous observer of developments focusing in the Southeast Asia/ASEAN region and the Mekong sub-region in particular. He obtained his Bachelor of Science degree in Biology (1975) and Master of Science degree in Water Resources Management (1977), both from the University of Wisconsin-Madison, USA. He is now a freelance independent consultant.
SESSION NOTES:

CONTEXTUAL BACKGROUND

WHY INCLUSIVE GROWTH? THE SEA EXPERIENCE

Over the past two decades, the ten member countries of the Association of Southeast Asian Nations (ASEAN)\(^8\) have enjoyed vigorous economic growth of, on average, about 4.6% annually in per capita PPP terms, compared with 3.7% in Latin America, 3.8% for the world, and 4.3% in sub-Saharan Africa.\(^9\) Economic growth was accompanied by social gains and relative political stability. Between the early 1990s and 2012, the total population expanded by over 200 million, but the number of people living in acute poverty – less than USD 1.25 per day in PPP terms – fell by 75 million. Several countries have attained middle-income status, including Indonesia, Malaysia, the Philippines, Thailand and Viet Nam. Their ability to capitalise on open global markets for goods and services has been crucial to their economic transformation and social improvement. They are also actively engaged on an ambitious path of regional integration, including through the formation of the ASEAN Economic Community.

The income gains from this strong economic growth within countries were not always evenly distributed, as is often the case during this kind of growth spurt. They accrued disproportionately to the owners of capital and to skilled workers. Although the proportion of those living in acute poverty has fallen steeply in most ASEAN countries, and virtually disappeared in some, such as Malaysia, about one-third of the approximately 600 million people living in the ASEAN countries live on less than USD 2 per day in PPP terms.\(^10\) The forces that drove, and are still driving, rapid productivity and income growth — technological progress, globalisation and market-oriented reform — seem to have contributed to increasing inequalities of income in some ASEAN countries, and left it high in others, possibly exacerbating social exclusion. Advances in technology have generally increased salaries and opportunities for the highly skilled, leaving those with intermediate or low skills behind. Pro-competition reforms in goods and services markets, while good for productivity and growth, have also polarised wages and affected the poorest the most.

Moreover, the informal sector is a barrier to inclusive growth. While informality appears to be declining across the region with continued development, it remains a barrier to growth as it limits the reach of government and lowers productivity levels (OECD, 2015a). The informally employed account for a large share of total non-agricultural workers in a number of ASEAN countries: Indonesia (73%), the Philippines (70%) and Viet Nam (68%).\(^11\) While most informal positions are found in the informal sector, in Viet Nam, for example, formal firms account for 37% of total informal employment (OECD, op cit). The destructive effects of inequality extend far beyond income as well; access to employment, health outcomes and educational opportunities are all disproportionately determined by socio-economic status. Unless addressed, inequalities may pose real dangers to political stability and threaten to leave long-term economic potential unfulfilled.

\(^8\) In alphabetical order: Brunei-Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam. In the World Bank classification, Cambodia and Myanmar are Low Income, Malaysia and Thailand are Upper Middle Income, Brunei Darussalam and Singapore are High Income (non-OECD) and the remainder are Lower Middle Income.

\(^9\) IMF World Economic Outlook database, April 2015

\(^10\) Brunei-Darussalam, Myanmar and Singapore are excluded from the calculation due to unavailability of data; Data based on 2011 data from PovcalNet (extracted on 12 January 2015).

The future of Southeast Asia (SEA) looks promising. Nevertheless, SEA countries need to do more to meet their long-term potential by sustaining growth and tackling underlying inequalities in growth levels and household income within and among countries. To sustain economic progress over the long term and buttress continued improvements in broad-based living standards, it will therefore be increasingly necessary to ensure that all SEA citizens have the opportunity to pursue success in their own lives, and contribute to the success of their nations and the region as a whole. Making growth more inclusive will be better for societal well-being, but it will also help make growth more sustainable in the long term.

Inclusive Growth has become a major challenge for many countries around the world, and the global recognition of its importance comes against a background of widening inequality (Figure 1). The objective is particularly relevant in the advanced OECD countries, but also in emerging economies of the world, including those in SEA. There is a need to discuss what can be done for SEA to sustain robust economic growth over the long term with greater inclusiveness. In particular, if SEA countries were to move towards a more advanced stage of development and beyond the middle-income trap, this requires a fundamentally different approach to development – one based on raising productivity through investment in human capital and innovation and a shift towards an increasingly technology-intensive economy (OECD, 2013). It is in this vein that this regional workshop aims to foster mutual learning through sharing knowledge and experience about inclusive growth in the SEA region. This dialogue is particularly timely in light of the ongoing discussion on the Post-2015 development agenda, and emphasis of the Sustainable Development Goals on equity and inclusion.

Figure 1. The state of income inequality in the world (Gini coefficient, mid to end 2000)

TRENDS AND DRIVERS OF GROWTH AND INEQUALITIES IN SOUTHEAST ASIA

Over the past two decades, the ten ASEAN countries have experienced brisk economic growth, ranging from over 5% annually for Viet Nam, Lao PDR and Cambodia, and between 2.5%-3% for the others.\(^\text{12}\) This contributed to substantial poverty reduction even during the global economic slowdown,

\(^{12}\) Based on 1993-2013 data period, World Bank Development Indicators, April 2015.
to which the region’s economies proved to be remarkably resilient. Southeast Asia (SEA) as a whole saw poverty rates declining from 51% to 12% between 1990 and 2011 with more than 130 million people lifted out of extreme poverty (Table 1). By country, Indonesia and Viet Nam saw 76 and 45 million lifted out of poverty between 1990 and 2011, respectively. Thailand experienced a reduction of 6 million, Cambodia 4 million, Philippines 3 million and Lao PDR around 700 thousand. In Malaysia, extreme poverty has been eradicated.

**Table 1. Extreme poverty in Southeast Asia (in millions, unless specified)**

<table>
<thead>
<tr>
<th></th>
<th>HCR (%)</th>
<th>Poor</th>
<th>Population</th>
<th>Poor lifted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southeast Asia</td>
<td>51.0</td>
<td>27.4</td>
<td>12.0</td>
<td>201.3</td>
</tr>
<tr>
<td>Cambodia</td>
<td>65.6</td>
<td>36.7</td>
<td>10.1</td>
<td>5.7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>64.7</td>
<td>33.8</td>
<td>16.2</td>
<td>115.5</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>65.2</td>
<td>41.2</td>
<td>31.2</td>
<td>2.8</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1.7</td>
<td>1.2</td>
<td>--</td>
<td>0.3</td>
</tr>
<tr>
<td>Philippines</td>
<td>33.9</td>
<td>23.7</td>
<td>18.6</td>
<td>21.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>11.6</td>
<td>11.6</td>
<td>0.3</td>
<td>6.5</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>75.0</td>
<td>40.1</td>
<td>5.0</td>
<td>49.5</td>
</tr>
</tbody>
</table>

*Source: PovcalNet Database (accessed 12 January 2015)*

Singapore now has a per capita income greater than any OECD country, Malaysia’s per capita GDP is comparable with that of some OECD countries, and Thailand is well into the upper middle income classification, on a par with Brazil. Participation in global networks of production, trade and investment has created employment, raised incomes and helped spread knowledge and technology throughout the region. The region’s economy also benefits from an expanding middle class and a young and dynamic population. If SEA were a country, it would have the third-largest labour force in the world, behind only the People’s Republic of China (PRC) and India.

SEA countries are also actively engaged on an ambitious path of heightened regional integration – through the completion of the ASEAN Economic Community (AEC) – by the end of 2015, although some impediments to intra-regional trade and investment may remain. The AEC is one of the most far reaching programmes of economic co-operation in the developing world, with important potential gains. Creating a “single market and production base” will have positive effects on economic growth and employment. If viewed as a single unit, SEA would rank as the seventh-largest economy in the world. As much of the rest of the world struggles with sluggish growth, it is tempting to see SEA as a bright spot in the global economy.

Growth prospects indeed look favourable in SEA over the medium term, despite sluggish growth in OECD countries and slowing growth in the PRC. The ADB forecasts SEA GDP growth of 4.9% in 2015 and 5.3% in 2016 as recovery in Indonesia and Thailand leads the way, and with most of the sub-region expected to trend up and benefit from rising exports and lower inflation (Table 2). However, Malaysia will see growth this year more subdued than last (ADB, 2015). The OECD projects the SEA region’s growth rate to average 5.6% per annum over the 2015-2019 period (OECD, 2015a). Overall the OECD forecasts that the SEA will sustain its growth momentum in the medium-term, led by Indonesia and the Philippines with an average annual growth of 6% and 6.2% respectively. More rapid growth (exceeding 7% per year) is expected over the next five years in Cambodia, Lao PDR and Myanmar.

**Table 2. Growth rate of GDP (% per year)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Southeast Asia</td>
<td>8.1</td>
<td>4.7</td>
<td>5.8</td>
<td>5.1</td>
<td>4.4</td>
<td>4.9</td>
<td>5.3</td>
</tr>
<tr>
<td>Brunei-Darussalam</td>
<td>2.6</td>
<td>3.7</td>
<td>0.9</td>
<td>-2.1</td>
<td>-1.2</td>
<td>-1.5</td>
<td>0.8</td>
</tr>
<tr>
<td>Cambodia</td>
<td>6.0</td>
<td>7.1</td>
<td>7.3</td>
<td>7.4</td>
<td>7.0</td>
<td>7.3</td>
<td>7.5</td>
</tr>
<tr>
<td>Indonesia</td>
<td>6.4</td>
<td>6.2</td>
<td>6.0</td>
<td>5.6</td>
<td>5.0</td>
<td>5.5</td>
<td>6.0</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>7.5</td>
<td>7.8</td>
<td>7.9</td>
<td>7.9</td>
<td>7.4</td>
<td>7.0</td>
<td>7.2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>7.4</td>
<td>5.2</td>
<td>5.6</td>
<td>4.7</td>
<td>6.0</td>
<td>4.7</td>
<td>5.0</td>
</tr>
</tbody>
</table>
The Asian financial crisis of the late 1990s persuaded countries in the region to follow comparatively prudent and stable macroeconomic policies, which helped them to maintain sustained growth thereafter. Ratios of public sector gross debt to GDP are currently lower than in most OECD countries. They also built up important foreign currency reserves for self-insurance. SEA’s surplus savings were invested largely in United States Treasury bills rather than in its own infrastructure development and other needs; central banks in the region hold reserves worth more than USD 700 billion (ESCAP, 2015).

Recent years, though, have witnessed increased household leverage and real estate speculation. Between 2008 and 2013, household debt as a percentage of GDP rose from about 60% to 87% in Malaysia and from 55% to 82% in Thailand (ESCAP, op cit). While largely manageable so far and unlikely to trigger instability, high debt can act as a drag on growth by constraining consumption in the years ahead and limiting the policy space with regard to interest rates. At present, though, the SEA countries (as a group) seem to have some room for manoeuvre in their macroeconomic policy settings.

In a context of rising prosperity on average, sizable income disparities exist within SEA countries (as well as regional disparities in these countries). As measured by the Gini coefficient, income inequality has moved in different ways in different countries over the past two decades (Table 3). It has fallen from comparatively high levels (over 40%) in Thailand, risen from comparatively low levels (around 30%) in Indonesia and Lao PDR, and remained broadly stable in other countries for which there are data. In Cambodia, it rose earlier this century before falling back more recently. In general, Gini coefficients in SEA countries are lower than in other LICs and LMICs in Africa and Latin America on average, but higher than those in advanced OECD countries\(^{13}\) (World Bank data based on consumption expenditure rather than income, except for Malaysia).

### Table 3. GINI coefficients in ASEAN countries (%)  

<table>
<thead>
<tr>
<th>Country</th>
<th>1990s</th>
<th>2000s</th>
<th>2010s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia</td>
<td>38.3</td>
<td>35.5</td>
<td>31.8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>29.2</td>
<td>29.7</td>
<td>35.6</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>30.4</td>
<td>32.5</td>
<td>36.2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>47.7</td>
<td>37.9</td>
<td>46.2</td>
</tr>
<tr>
<td>Philippines</td>
<td>43.8</td>
<td>46.1</td>
<td>43.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>45.3</td>
<td>42.8</td>
<td>39.4</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>35.7</td>
<td>37.6</td>
<td>35.6</td>
</tr>
</tbody>
</table>


The Gini coefficient measures inequality over the entire income distribution, but does not give a precise guide to what is happening at the extremities. As measured by the ratio of incomes between the top and bottom deciles, the gaps between the richest and poorest segments of the populations have fallen significantly only in the Philippines and Thailand, albeit still remaining at high levels in both countries (Table 4). They have risen appreciably in Indonesia, although not to high levels, and elsewhere they have remained broadly stable (calculations based on World Bank Development Indicators, April 2015). The forces and policies that have driven growth so far – i.e. technological progress, globalisation and market-oriented reform – should be allowed to continue in future, but they

\(^{13}\) The population-weighted average of GINI coefficients in 26 low-income and lower-middle income countries, covering over 2 billion people, is 35.5%. The GINI average for those SEA countries for which data exist is 33.2% (World Bank Development Indicators database, April 2015).
should be supported by flanking policies designed to address inequality. Otherwise, the phenomenon of the poorer segments of the population being left behind amid growing prosperity will likely continue; the drivers of economic growth have led to increasing skill premiums and returns to human capital, a falling share of labour income, and increasing spatial inequality (ADB, 2012).

**Table 4. Income Ratios in ASEAN Countries (Top/Bottom Deciles)**

<table>
<thead>
<tr>
<th></th>
<th>1990s</th>
<th>2000s</th>
<th>2010s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia</td>
<td>n/a</td>
<td>n/a</td>
<td>6.7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>6.6</td>
<td>5.9</td>
<td>8.4*</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>8.5</td>
<td>n/a</td>
<td>9.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>22.1</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Philippines</td>
<td>16.1</td>
<td>15.8</td>
<td>13.2</td>
</tr>
<tr>
<td>Thailand</td>
<td>13.3</td>
<td>13.1</td>
<td>11.1*</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>8.5</td>
<td>n/a</td>
<td>9.6</td>
</tr>
</tbody>
</table>


It needs to be emphasised that the policy responses to higher inequality in outcomes (as opposed to opportunity) need to be made with care. In particular, it is critical to understand what drives the changes in inequality in any country before contemplating a policy intervention. As is widely recognised, the process of structural transformation – whether encompassing shifts of the working population from rural to urban areas, from low productivity traditional agriculture to higher productivity sectors, or from low productivity informal sector firms to higher productivity firms – may well lead to increases in inequality in an outcome such as income. Yet, such shifts are all part and parcel of the development process. A knee jerk response to inequality increases could inadvertently stop a nascent growth process. However, it should not be assumed that continually rising inequalities are a sign of successful growth policies; they can also be a sign of unsuccessful social and fiscal policies.

Implementing successful flanking policies requires efficient and effective government with a solid tax base with which to finance such policies. An issue in the SEA countries is the importance of informal employment, defined either as workers not covered by labour market regulations, or the number of self-employed workers not officially working for a firm. Estimates by the ILO, quoted in OECD (2015a), of informal employment in the non-agricultural sector in 2008-2010 range from 70% of the total in the Philippines and Indonesia to around 40% in Thailand, and probably less than 20% in Singapore. Informal employment may result from a combination of onerous regulation of formal employment, tax avoidance or evasion, or lack of trust in government. Whatever the influences, the result is to reduce tax and social security revenues that could finance social policies targeted at inclusive growth: “Informality tends to be associated with inequality and underdevelopment and is generally widespread among the poor and less well educated workers who face exclusion from the formal sector” (OECD, op cit).

Inequality of incomes has indeed gone hand-in-hand with unequal educational achievements, health status and access to other public services. Unequal access to opportunities – in education, public services, employment and other areas – often arises from differences in individual circumstances that are outside the control of individuals, such as their gender, ethnic origin, parental education or location of birth (Zhuang, Kanbur and Rhee, 2014). The children of the poorest families especially face barriers to contributing to, and benefiting from, the kind of economic growth that has brought prosperity to other citizens. They are disproportionately likely to be from ethnic minority families living in remote rural areas. Public spending on social protection remains low, making families living just above the poverty line vulnerable even to small shocks. Overall public spending on social protection was more than 3% of GDP in Malaysia, Singapore and Viet Nam but only 1% in Cambodia, Indonesia and the Lao PDR. These shares are significantly smaller compared to the OECD
average of over 20%. The ESCAP Survey of the region for 2013 contained an estimate that Indonesia and the Philippines would need to increase public health spending by 8% annually in order to raise total health spending to 5% of GDP in line with WHO recommendations laid down in “Health Financing Strategy for the Asia Pacific Region (2010-2015)” (WHO, 2009).

A strategy for more inclusive growth is needed in order for the region to ensure sustained growth and continued convergence in living standards towards the advanced economies. Disparities can be reduced or contained through a wide range of policy responses including, among other things, more efficient and future oriented fiscal policy, allocating more resources to health, education and skills development, especially for poorer families; interventions to bolster lagging regions, including infrastructure to improve physical connectivity; and measures to generate more employment-friendly economic growth, including policies to assist SMEs which account for the dominant shares of the region’s economy and employment. Barriers for particularly vulnerable groups must be specifically addressed as part of the policy mix, so that all members of society can benefit.

Some governments are responding to rising inequality: Indonesia, Myanmar, the Philippines, Thailand, Malaysia and Viet Nam seek social goals like inclusiveness. Targets for reduced poverty rates were set by Indonesia, the Philippines and Viet Nam and for income equality by Malaysia and Thailand.

Myanmar’s 2012-15 Framework for Social and Economic Reforms prioritises necessary, achievable reforms in economic development, regulation and governance, the provision of public services, and infrastructure development. The Philippines’ medium-term development plan 2011-2016 specifically states that its aim is to “foster inclusive, sustainable growth” for example, by meeting macroeconomic competitiveness, financial and social targets, among others. Thailand’s Eleventh National Economic and Social Development Plan (2012-16) targets inclusive, broad-based growth, education and other areas of human development, food and energy security, increased innovation and growth, trade, investment, and environmental protection. Viet Nam’s Socio-economic Development Plan (2011-15) emphasises development through upgrading, improving efficiency and competitiveness through targets for overall and sectoral economic performance, meeting social targets (e.g. job creation and poverty reduction) (OECD 2013).

In Indonesia, the 2010-2014 development plan outlines five agendas: “economic development and increased welfare, enhancement of good governance, strengthening the pillars of democracy, law enforcement and eradication of corruption, and inclusive and just development”. In Lao PDR, the development plan for 2011-2015 targets a poverty rate below 19%, percentage of poor households at 10% or less, and unemployment rate less than 2%. Malaysia’s inclusive development approach aims to enable equitable opportunities for all Malaysians (i.e. improve capacity, enhance access to employment opportunities, and encourage innovation-driven entrepreneurship) and provide a social safety net for disadvantaged groups (ADB/ADBI, 2014).

ASEAN countries in general have made education a priority. The ASEAN 5-year (2011-2015) Work Plan on Education listed four priorities in this area, of which increasing access to quality primary and secondary education was key. Public spending on education now ranges from a high 6.6% of GDP in Viet Nam to 2.6% in Cambodia, where close to 100% of the relevant population enter primary schools. However, only 70% remain enrolled until their last year (ASEAN, 2014). Social protection systems in Viet Nam have mitigated risks associated with ill health, disability, work-related injury and old age, although Viet Nam still spends less than other lower middle-income countries (LMICs), and spending on pension is particularly low (OECD, 2014a). Moreover, the, coverage of social insurance schemes is concentrated disproportionately among the better off.

Well-designed and predictable stability-oriented macroeconomic policies, together with openness to international trade and finance, helped SEA countries to create frameworks that fostered economic growth. They are powerful, albeit indirect, tools to reduce the incidence of poverty, but they do not in

---

14 Social spending as a percentage of GDP for OECD total was 21.6% in 2014 (source: OECD.Stat, https://data.oecd.org/socialexp/social-spending.htm).
themselves promote inclusive growth. Social policies are needed, and need to be financed. For the poorer SEA countries, foreign donors and aid agencies have made substantial contributions to finance education (ASEAN, 2014) and have also helped to finance health services and infrastructure. In the longer term, though, the countries themselves must find the necessary resources through their taxation systems. As long as there are substantial numbers living below or just above poverty levels, transfers in cash or in kind will be needed; but in the longer term, social spending needs to focus on preventing poverty and promoting inclusion. There is some way to go. Public spending on education (as a percentage of GDP) for example, ranges from around 6% in relatively rich Malaysia to less than 3% in Cambodia, with most others in the 2.5%-3.5% range, despite their comparatively young populations (Viet Nam is an exception at over 6%). The World Bank puts the average for lower middle-income countries at about 4.5%. The equivalent figure for OECD countries is over 6% (OECD, 2014c). Bringing a higher proportion of the population into the taxation system, by persuading them that tax revenues enable them and their children to lead better lives is a priority.

**Elements for discussion**

This session will provide an overview of the trends and drivers of growth and inequalities in Southeast Asia.

- Is income inequality an inevitable consequence of vigorous economic growth in SEA countries? Why are different countries’ experiences different in both respects?
- What have been the defining trends with regards to inclusiveness of growth in SEA countries, and what have been the countries’ responses?
- How much fiscal margin for manoeuvre do different SEA countries for financing and implementing more ambitious social programmes?
- How much further scope is there for: (i) “static” fiscal policies (i.e. taxing the better-off and transferring income directly to the disadvantaged) and for (ii) “dynamic” fiscal policies (i.e. taxing the better off in order to finance health, education and other social policies targeted at the disadvantaged)?
TOWARDS A RELEVANT CONCEPT OF INCLUSIVE GROWTH FOR COUNTRIES IN THE REGION

Inclusive Growth has attracted considerable attention among policy makers across the world. It is understood to be a form of economic growth that combines increased prosperity, greater inclusion of the disadvantaged in the growth process, and greater equity in the distribution of its benefits. Inclusive Growth that is evidence-based and policy-oriented is of particular interest to policy makers.

In some cases, approaches focus on productive employment, so that economic growth can generate the jobs needed to absorb growing populations, meet the demands of the private sector for skills and competencies, and ensure that workers reap the benefits of rising productivity. Other approaches emphasise options for making growth pro-poor, aiming to deliver higher income gains for low-income groups than for the rest of the population, and in doing so help to reduce inequalities in living standards. There are still other approaches that focus on the economic and non-economic opportunities generated by economic growth and on sharing the benefits of growth in terms of quality of jobs, the health and education status of the population and/or the skills of the labour force.

The Organisation for Economic Co-operation and Development (OECD) launched its ‘All on Board for Inclusive Growth’ Initiative in 2012 in the wake of the financial crisis, against a backdrop of rising inequality in OECD countries and persistently high inequality amongst key partner countries. The Initiative has developed a novel approach to Inclusive Growth which aims to help governments analyse and address rising inequalities, monitor material living standards and broader well-being, and design underlying policy packages.

The OECD’s approach starts from the premise that, whilst important, economic growth alone is not sufficient to generate sustained improvements in societal welfare. Promoting across-the-board improvements in well-being calls for a broader conception of living standards than that contained in traditional measures. Beyond income and wealth, people’s well-being is shaped by a range of non-income dimensions – such as their health status, educational level and employment opportunities – that are not adequately captured in a measure like GDP per capita. In a similar vein, gauging the evolution of well-being at the societal level cannot be achieved solely by examining changes in the average level of living standards. Rather it is necessary to look at the evolution of living standards for different segments of the population, such as the median or the poorest, to see whether economic growth benefits all groups in society, or just the lucky few.

Using these insights the OECD created an Inclusive Growth Framework to allow for analysis of the extent to which growth – in a given country and over a given period – translates into improvements across the range of outcomes that matter most for people’s lives. At the heart of the Framework is a measure of “multidimensional living standards” that provides a more rounded snapshot of societal welfare by accounting for the health status of the population and the risk of unemployment, alongside household income and income inequality (Box 1). This allows for the OECD’s definition of Inclusive Growth as a rise in the multidimensional living standards affecting different income groups in society.

BOX 1. THE OECD APPROACH TO INCLUSIVE GROWTH

Defining multidimensional living standards

The income dimension of the measure of multidimensional living standards is composed of a measure of average household real disposable income and an inequality adjustment which captures the income difference between one group of the income distribution (e.g. the bottom decile) and the average income.

The selection of the non-income dimensions follows the OECD Well-being framework, which has identified eight non-income dimensions that matter for the well-being of individuals and households. A sub-set of these dimensions was selected to build multidimensional living standards in the Inclusive Growth project. This selection was based on empirical work on the determinants of subjective well-being, which shows that unemployment and health are highly significant factors. In addition, each of these two dimensions has the advantage of being prominent in the public policy debate. Further dimensions could be added and work is presently underway to extend the methodology to include health inequality and education. The work on education will
specifically examine the welfare return to education (in terms of life-expectancy).

In order to bring the selected non-monetary dimensions into the analysis of multidimensional living standards, non-monetary dimensions have been converted into US dollars by estimating “shadow prices” that reflect people’s preferences, and are inferred from data on subjective well-being and living conditions through statistical analysis.

A snapshot of the multidimensional living standards of the bottom decile in the OECD, at the latest available date, (2012) is shown in the figure below. The chart shows the OECD average loss in living standards associated with unemployment and longevity gaps with respect to best performer (i.e. Japan). It also shows the inequality loss for the bottom decile relative to average household disposable income. When longevity and unemployment losses in living standards are added up they represent as much as 25% of household average income.

Multidimensional Living Standards of the Bottom Decile in the OECD
US dollars 2005 constant PPPs, 2012

Note: The chart shows the average of multidimensional living standards of the bottom decile across 31 OECD countries. Source: OECD calculations based on OECD Income distribution Database and OECD Annual National Accounts.

Using multidimensional living standards to inform the policy debate

Multidimensional living standards are a particularly useful tool for policy makers. Monetising non-income dimensions makes it possible to analyse the net effects of policy packages on people’s welfare, by facilitating the expression of the impact of policies on jobs and health and income in a common scale.

The effects of structural policies on income, jobs and health may operate in the same direction, creating positive synergies, or may be partly offsetting, leading to trade-offs which call for compensatory action. For instance, the introduction or the extension of a minimum health insurance financed by additional contributions from employers or households may be detrimental to the average and median household income as well as to employment in general, but it may benefit the poor in the form of higher longevity and higher in-kind transfers due to health services.


The OECD’s Inclusive growth Framework is readily applicable in the context of emerging markets and developing countries.

A regional consultation conducted in Latin America and the Caribbean (LAC) in 2013 with the United Nations Economic Commission for LAC, highlighted the importance of integrating different dimensions into the Framework to account for particular regional characteristics. In LAC this meant
considering job quality in order to account for high labour market informality which limits productivity increases and the access to social protection. One of the other key findings of the consultation was that more investment in education and skills, focused on improving access to good-quality education and fostering intergenerational mobility, would act as a key policy lever for Inclusive Growth in Latin America.

A national case study, All on Board: Making Inclusive Growth Happen in China, was also conducted for the Chinese Government to provide input into its 13th Five Year Plan. The case study found that despite growth in household disposable income and employment opportunities, combined with a drop in income inequality from the late 2000s on, the growth of multidimensional living standards in China was limited by sub-par improvements in life expectancy due to excessive ambient air pollution. The application of the Framework in the Chinese context clearly indicated the importance of improving health to promoting Inclusive Growth. It also suggested that reducing the rural-urban income gap, improving rural education and facilitating further liberalisation of the urban registration (Hukou) system, would help to connect disadvantaged groups to opportunity and thereby contribute to longer-term economic growth.

The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) is undertaking research and analysis on inclusive growth in the Asia-Pacific region. While economic growth, which is a critical element in the development process, has been spectacular in the Asia-Pacific region over the last decades, growth, and development, are inherently multidimensional concepts. To capture this, ESCAP takes a broad view of inclusiveness that takes into consideration the economic, social and environmental dimensions of development as well as poverty and inequality of incomes. ESCAP’s analysis encompasses the essence of the commitments that representatives of Member States agreed in the outcome document of the United Nations Conference on Sustainable Development, held in Rio de Janeiro, Brazil, in June 2012, in which the signatories clearly committed to ensuring the promotion of an economically, socially and environmentally sustainable future for the planet (See General Assembly resolution 66/288).

To address the issue of inclusiveness more methodologically and to reflect the definition of sustainable development contained in the Rio+20 outcome document, ESCAP therefore has created a composite index of inclusiveness, published in the 2015 Economic and Social Survey of Asia and the Pacific (Box 2). This index consists of three sub-indices, one for each of the three dimensions of inclusiveness. By analysing how the three sub-indices have evolved for two periods of time, the 1990s and the period from 2000 to 2012 for those countries with available data, ESCAP analysis shows that, although growth across countries has in general been more inclusive, significant divergences in inclusiveness exist within countries between the sexes, across the rural and urban sectors and between regions (ESCAP, 2015, Chapter 3).

Particularly worryingly is that the gap between the “haves” and the “have nots” within countries is widening as these dynamics, if they persist, will ultimately lead to a vicious cycle in which the better off benefit more from public services, such as health care and education, than do the less well off, which in turn increases their employment prospects, thereby widening the gap even further between them and those less well off.

A number of policy proposals are put forward on how to make growth more inclusive. These build on earlier ESCAP analysis. As highlighted in the Economic and Social Survey of Asia and the Pacific 2013, there is a need to make macroeconomic policies for inclusive and sustainable development more forward-looking. Yet, doing so will also require greater efforts to mobilise additional resources for development; in particular, as argued in the Economic and Social Survey of Asia and the Pacific 2014, the need to raise more resources through taxation and address inequalities in tax burdens.

**BOX 2. ESCAP INDEX OF INCLUSIVENESS**

In its 2015 Economic and Social Survey of Asia and the Pacific, ESCAP presents indices of inclusiveness of growth for several countries in that region. The composite index is
based on three sub-indices: economic inclusiveness; social opportunities; and environmental opportunities, and for each sub-index and the composite index, average values are presented for the 1990-1999 and 2000-2012 periods. The geographical coverage is limited by data availability. Only five of the SEA countries are represented in the composite index compared with seven for the economic sub-index, eight for the social, and seven for the environmental.

Each sub-index is constructed by weighting together relevant quantitative indicators. For the economic inclusiveness sub-index they are the:

- poverty headcount ratio at USD1.25 per day in 2005 PPP (% of population);
- Gini coefficient;
- ratio of income shares held by the highest quintile to the share held by the lowest quintile;
- unemployment rate (%);
- ratio of the female-to-male labour-force participation rate (%).

Each indicator has equal weight in the economic inclusiveness sub-index. The social opportunity sub-index is constructed by weighting together:

- gender parity at the secondary school level;
- gross secondary school enrolment;
- average years of schooling;
- percentage of live births attended by skilled health staff;
- the mortality rate of children under age 5 (per 1,000 live births)

The environmental opportunity sub-index was constructed by weighting together the:

- percentage of the population with access to improved sanitation facilities;
- percentage of the population with access to improved water sources;
- annual increase in total GHG emissions;
- annual percentage change in forest area;
- annual percentage change in the share of fossil-fuel energy consumption in the total consumption of energy.

The table below presents available results for SEA countries, taken from the ESCAP Survey (Chapter 3). In each case, higher numerical values mean higher levels of inclusiveness.

<table>
<thead>
<tr>
<th>Index</th>
<th>Economic</th>
<th>Social</th>
<th>Environmental</th>
<th>Composite</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>0.83</td>
<td>0.89</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cambodia</td>
<td>0.74</td>
<td>0.79</td>
<td>0.34</td>
<td>0.49</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.7</td>
<td>0.72</td>
<td>0.51</td>
<td>0.73</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>0.78</td>
<td>0.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.69</td>
<td>0.74</td>
<td>0.76</td>
<td>0.84</td>
</tr>
<tr>
<td>Myanmar</td>
<td>0.46</td>
<td>0.58</td>
<td>0.55</td>
<td>0.67</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.66</td>
<td>0.68</td>
<td>0.68</td>
<td>0.74</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.79</td>
<td>0.81</td>
<td>0.71</td>
<td>0.81</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>0.74</td>
<td>0.8</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

With only one exception (Cambodia, on the environmental indicator), all the countries covered showed improvements in the indicators of inclusiveness between the 1990s and the more recent period. For comparison, the best-performing country on ESCAP’s composite indicator was Kazakhstan with a composite indicator score of 0.82 for the 2000-2012 period. Thailand was in third place, and Cambodia 15th out of the 16 countries covered.

ESCAP does not claim that its indicators of inclusiveness give precise, internationally-comparable measures of inclusive growth. They nevertheless give useful information about trends, and by analysing their sub-components, priorities for improvement.
The Asian Development Bank (ADB) defines inclusive growth as “growth coupled with equality of opportunity” and, therefore, emphasises both the creation of jobs and economic opportunities and equal access to these opportunities to ensure that everyone in society can participate in and benefit from growth. Accordingly, as highlighted in ADB’s long term strategic framework—Strategy 2020 and its recent mid-term review—an inclusive growth strategy needs three policy pillars.

- First, it requires high, sustained, and broad-based economic growth to create sufficient levels of productive jobs and expand economic opportunity for all. In developing Asia, with hundreds of millions of people unemployed or underemployed and tens of millions joining the labour force each year, if growth fails to provide decent jobs for a wide population, it cannot be considered inclusive.
- Second, it requires social inclusion to ensure that every man and woman has equal access to opportunity. In developing Asia (and other parts of the world), many are excluded from economic opportunity for reasons beyond their control. Ensuring equal access to opportunity means investing in education and health to expand human capacity, especially of the disadvantaged, including women, and eliminating market and institutional failures and social exclusion to level the playing field.
- Third, inclusive growth requires effective social protection to mitigate the risks and vulnerabilities associated with transitory livelihood shocks, often caused by ill health, economic crises, industrial structuring, or natural disasters, and to cater to the special needs of the disadvantaged and chronically poor.

**Elements for discussion**

This session will focus on the institutional approaches (OECD, ESCAP, ADB) to inclusive growth with a view to identifying the different dimensions of inclusive growth that are most relevant in the SEA context.

- What do the different approaches to Inclusive Growth frameworks proposed by OECD, ESCAP and ADB have in common, and how can they complement each other when applied to SEA countries?
- How can spatial disparities be best reflected in an Inclusive Growth framework alongside inequalities?
- What are the main methodological challenges, including in terms of data collection, that need to be addressed to implement Inclusive Growth in the regional context?
- How can specific regional characteristics such as informal labour markets, gender inequality or be integrated into a relevant Inclusive Growth concept?
KEY POLICY DRIVERS OF INCLUSIVE GROWTH IN SOUTHEAST ASIA IN THE POST-2015 DEVELOPMENT LANDSCAPE

This two-part session will focus on the policies that can drive inclusive growth and on the experiences with implementation of inclusive growth policies at the national or regional levels. Special attention will be devoted to identifying trade-offs and complementarities among inclusive growth policies.

Although income inequalities are not uniformly high by international comparison in ASEAN countries, they are high in some, and it is important that continuing robust growth does not exacerbate them. To address the Inclusive Growth challenge, it is important to better understand the trade-offs and complementarities that may exist between policies to promote growth and jobs and those that can achieve a better distribution of the benefits of growth across a range of income and non-income dimensions. The choice of policies to prioritise will vary according to the specific conditions and needs of individual countries, as well as their capabilities to design and implement Inclusive Growth policies.

1. Social Protection Systems, Education and Skills

Social protection is defined as preventing, managing, and overcoming situations that adversely affect people’s well-being (UNRISD, 2010). Definitions relevant to ASEAN countries include three main programme categories (Table 4). First, non-contributory social assistance programmes to raise the living standards of poor or vulnerable people through transfers in cash or in-kind. Second, social insurance, generally linked to employment and often contributory (although also financed from general tax revenues), to protect against income loss due to life’s normal contingencies. The third domain of social protection consists of various labour market policies and programmes, including skills development programmes, and fundamental labour standards, including prohibition of child labour, a practice which too often results in children dropping out of education, even at the primary school level.

<table>
<thead>
<tr>
<th>Table 4. 2009 and 2012 Social Protection Expenditures in SEA countries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Government Social Protection Expenditures, 2009 and 2012</strong> in million $</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>Cambodia</td>
</tr>
<tr>
<td>Indonesia</td>
</tr>
<tr>
<td>Lao PDR</td>
</tr>
<tr>
<td>Malaysia</td>
</tr>
<tr>
<td>Philippines</td>
</tr>
<tr>
<td>Singapore</td>
</tr>
<tr>
<td>Thailand</td>
</tr>
<tr>
<td>Viet Nam</td>
</tr>
</tbody>
</table>

In the case of Indonesia, the rate of school dropout or discontinuation (DOD) starts to increase among children aged 12 years – the age of a primary school graduation – and steeply increases further among those aged 16–19 years old – during and after senior secondary school age. In 2009, it was estimated that one out of every three children aged 16–17 years dropped out of school. Financial difficulties
were the main reason for failure to enrol in senior secondary school, as stated by more than 60% of both male and female junior secondary school students in rural and urban areas. Additionally, a lack of awareness among parents about the importance of education is still a problem, especially with regard to education beyond junior secondary school, since completion of junior secondary school satisfies the Indonesian government’s compulsory nine years of basic education (UNICEF/SMERU/BAPPENAS, 2012).

According to a recent study by the Philippine Institute of Development Studies, inequalities in education attainment have been the root of vulnerable employment in the Philippines (Albert et al., 2015). Improving opportunities for school participation and other education outcomes for the poor would be the mechanism for social inclusiveness enabling everyone, whether poor or non-poor, rural or urban folk, to fully participate in economic growth processes and the progress of Philippine society. Based on APIS data, the number of five to fifteen-year-old out-of-school children (OOSC) decreased to 2.6 million by 2010, and further to 1.8 million by 2011. The decrease in OOSC is largely attributed to increase in school participation rates due to the Pantawid Pamilya Pilipino Programme, the conditional cash transfer programme implemented by the government. Pantawid Pamilya was designed to assist poor households to break free from inter-generational poverty by investing in the education of their children, and health of their household members (Albert et al., op cit).

Considering the heterogeneity of needs, social protection programmes need to be multi-layered in their design (Box 3). For example, although cash transfers can have an immediate impact on the poor, if monitored effectively, they are essentially a static, palliative measure. The longer-term solution lies with investments in skills development and promotion of sustainable livelihood programmes. Therefore a focus on human capital requires investment in healthcare, education and other essential services. These are also critical components of any system designed to provide minimal social protection to a population. Programmes to ensure the healthy and productive development of children can have a major impact on developing human capabilities and hence on long-term growth.

To prevent inequality becoming ingrained across generations, continuation and intensification of ambitious education programmes are desirable in certain countries. SEA countries in general have prioritised education as a key to long-term sustainable growth. Even the poorest countries have succeeded in raising enrolment rates in primary education to high levels, although early drop-out is still a problem that needs to be countered. The multiplicity of local languages and ethnicities is a particular challenge in several SEA countries; for example, more than 700 local languages are spoken in Indonesia. Several SEA governments – and many parents – are encouraging pre-school learning, with long-lasting effects on ability to profit from education and training. In all but the richest SEA countries, children from well-off families are nevertheless more likely to have attended pre-school and to remain in education after the legal minimum age.

The provision of gender balanced access to education is crucial. No country can reach its full potential without the successful integration of women into the labour force (ESCAP, 2007). Equalising educational attainment lays the foundation for a rewarding professional life. Most SEA countries have made great strides towards gender equality in primary schools, and increasingly at the secondary level. Indeed in several countries, girls are less likely to drop out (except in remote rural areas) and more likely to have better results than boys. This risks creating a problem in the longer term, a familiar one in some advanced countries, of large numbers of unskilled male youth with limited job prospects. A well-financed vocational education and training (VET) system with experienced and well-qualified teachers that is responsive to changing labour market conditions could play an important role to help the poor and disadvantaged, and those who have dropped out of school, and thus promote inclusion and equity.

There is also a growing recognition among education experts in SEA countries that the traditional emphasis on rote learning and exam results is not the best way of fostering the ability to analyse new problems in a creative way, and could help explain mediocre PISA results in Indonesia, Malaysia and Thailand. Addressing this issue might entail major changes in the mind-sets of both teachers and parents. By contrast, the most recent PISA results put Viet Nam, which has invested a high proportion of GDP in education, in the 12th place, ahead of most OECD countries. Even in Viet Nam, though,
education experts find, and businessmen complain, that there is too much emphasis on theory and memory learning, and not enough on developing analytic skills (ASEAN, 2014).

The level and quality of education and vocational training is thus important for reducing skills shortages. Improving youth and adult skills is also an area monitored by the Education for All programme to ensure equitable access to appropriate learning and life-skills programmes. This addresses the need for education alternatives for youth and adults who are no longer in school. In Thailand, this is part of a national action plan to improve adult literacy and basic and continuing education for all adults. In Viet Nam, non-formal adult education (NFE) and adult literacy training were made components of the overall education system in 2005. There were almost 10 million participants in adult learning and NFE programmes in 2008, compared with half a million in 1999 (UNESCO, 2015).

While most countries have achieved universal primary education, the quality of the education varies, with students in some cases completing primary education without having acquired basic literacy and numeracy skills. Given the skills required in a modern economy, secondary enrolment should be actively encouraged. Increased public spending on education should be accompanied by other measures, such as enhanced teachers’ selection and training. Governments can also improve the range and types of technical and vocational education and training, including apprenticeships, other work experience schemes and work-based learning to foster youth employment. Setting qualification references at national and regional levels can facilitate employment. For instance, Singapore has a national credentialing system to train individuals in key competencies that companies seek. In 2014, ASEAN endorsed the Qualifications Reference Framework, which enables comparison of the qualifications of skilled labour across ASEAN member countries, as part of the efforts to promote mobility. At the same time, greater progress is needed on the public health front.

SEA countries are heterogeneous in level of economic development and economic structures, economic and institutional capacities, and in priority given to social protection goals. Each country will have to design their own reform path, including appropriate instrument-mix based on country-specific circumstances such as formality of labour markets, fiscal space to finance social programmes, including public pensions, professionalism of social protection organisations and regulatory capacity to supervise social protection organisations, albeit guided by sound pension economics and policy principles and practices. At present, the ASEAN population is young, but fertility rates are falling, life expectancy is rising, and sustainable systems of social security will be needed to ensure social cohesion. By 2035, the proportion of ASEAN countries’ populations over the age of 65 will be at least double their 2010 levels (Asher and Zen, 2015). Given the large share of informal sector workers in SEA countries, social protection can play an important role in strengthening the livelihoods of informal sector workers, including those working in the agricultural sector.

Poverty reduction is a clear priority in those countries where absolute poverty remains important, for example Indonesia, the Philippines and Lao PDR. Targeted income support, possibly entailing higher levels of progressive taxation, would be preferable to subsidised fuels and energy, which disproportionately benefit richer households. Indonesia, for example, plans to use part of the savings accumulated from virtual elimination of fuel subsidies in January 2015 to finance much-needed infrastructure spending. Better transport infrastructure would also give poor families in remote rural areas in ASEAN countries better access to markets for their produce and their inputs, and more investment in infrastructure targeted at small and medium-sized cities could spread the benefits of growth more widely.

Of crucial importance in ensuring effective inclusive policies is the collection and analysis of data and information that will enable policy-makers to better understand the costs, benefits and trade-offs of different policies, and the monitoring of their impacts.

**Elements for discussion**

- How can we build an inclusive social protection system that addresses risks and vulnerabilities at all critical stages of the entire life cycle? How are such systems be best financed: progressive taxation; consumption taxes; social insurance schemes?
What are the main challenges in terms of public sector capacities, skills and tools to design and implement Inclusive Growth policy packages?

How can governments and development partners support the sharing of experiences and good practices in social policy implementation in the region? Can the ASEAN framework play a role?

How can education and skills policies be better connected with development strategies and serve as an engine for decent jobs?

2. TRADE AND LABOUR MARKETS

The expansion of trade and investment in SEA has helped lift millions out of poverty. Countries in SEA have made good progress on integration into global and regional trade and investment flows. In 2013 SEA accounted for around 7% of world exports; and FDI inflows rose to a record USD 125 billion, or 9% of global FDI inflows (ESCAP, 2015). Many SEA countries are tightly integrated with international production networks and global value chains, though there are considerable divergences in the region. For instance, the Philippines has long received far less foreign investment than the size of its economy or labour force would suggest; even with recent improvements, FDI inflows stood at only USD 3.9 billion or just 3% of the SEA inflows in 2013 (ESCAP op cit). Restrictions on foreign ownership and other regulatory barriers are often cited as reasons for this situation. Thus, trade and investment need to be better utilised so that they can more fully contribute to growth. There is a need to: (i) further deepen international integration, including by tackling barriers to intra-regional trade and investment and (ii) enhance the supporting policies that accompany trade and investment liberalisation to support inclusive outcomes.

In December 2015, ASEAN will reach its self-imposed deadline for realising the ASEAN Economic Community (AEC). The AEC marks a milestone on the longer road towards deeper integration and many challenges will persist beyond 2015. But ASEAN has made progress in moving towards its aim of achieving a single market and production base, most notably through the reduction of tariffs: zero tariff rates for intra-ASEAN trade have been applied to 99% of tariff lines in six ASEAN countries (namely, Brunei-Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand) since 2010, and to 72.6% of tariff lines in the so-called CLMV countries (Cambodia, the Lao PDR, Myanmar and Viet Nam) since 2013. However, the share of intra-ASEAN trade realised under granted preferences is not very high given the fact that more than 70% of trade is already subject to zero most-favoured nation rates, and only less than 5% is subject to most-favoured nation tariffs above 10%. Moreover, tariffs on products in highly sensitive lists will persist beyond 2015 (ESCAP op cit).

While tariffs have fallen, non-tariff barriers have emerged as a serious trade impediment. Non-tariff barriers were supposed to be eliminated by 2010, except for the Philippines (by 2012) and for the CLMV countries (by 2015, with flexibility of extension to 2018 for some products). In reality, it is difficult to identify all non-tariff barriers and their impact on intra-ASEAN trade for each country in view of the fact that work on the ASEAN Non-tariff Measures Database, which was meant to produce an inventory of all non-tariff measures, especially those that act as trade barriers, is progressing very slowly.

Investment liberalisation has also been limited by the identification of sensitive sectors by ASEAN countries, especially Indonesia, Thailand and Viet Nam, which will be exempted from liberalisation commitments. Some progress in trade facilitation has been made though the ASEAN single window programme is behind schedule as countries are still struggling to introduce national single windows which are a necessary precursor.

The most highly problematic area is the enforcement of the agreements related to liberalisation of trade in services and the mobility of skilled labour. In general, trade in services remains less liberalised than trade in goods. Although ASEAN ministers declared 2015 as the end-date for liberalisation of all service sectors, implementation of agreements is still an issue as, in practice, domestic restrictions on equity landholdings and licensing requirements continue to pose significant barriers to intra-regional investment in services and mobility of skilled labour.
ASEAN is also negotiating the Regional Comprehensive Economic Partnership (RCEP) with its six current Free Trade Agreement (FTA) partners: Australia, China, India, Japan, New Zealand and the Republic of Korea. RCEP economies collectively account for 29% of world GDP and 30% of world exports and thus represent a major opportunity to put SEA at the heart of regional trade. Success will require action to simplify the existing complex and overlapping arrangements among RCEP countries, as well as meaningful further liberalisation on goods, services and investments.

Further trade liberalisation will not by itself deliver inclusive growth whether it leads to deeper regional integration or to enhanced trade between the region and the rest of the world. There is little data that can be used to explore whether trade has promoted inclusive growth. However, if inclusive growth policies include helping small and medium-sized enterprises (SMEs) that have limited access to bank finance and other support, the ADB’s Trade Finance Programme (TFP) has three years of data available which show that this trade support initiative has largely been used to support the those kinds of exporters. Annual data from 2012-2014 shows that 80% of transactions under ADB’s TFP supported SMEs, and almost all supported transactions (more than 90%) were in Asian Development Fund countries.\(^{15}\) The programme is expanding in 2015 to Myanmar and the Pacific. This is particularly important as many of these countries do not have bank limits, meaning that their risk cannot be priced and no banking institutions can provide trade finance. Without the guarantee programme, formal trade is stunted.

In 2014, two evaluations were carried out in the context of the Northern Economic Corridor Project in Lao PDR.\(^{16}\) This ADB’s technical assistance was to support a road building project with a social action component intended to ensure benefits went to ethnic minorities. Both analyses clearly illustrate the challenges of designing and successfully using infrastructure projects to promote social goals. The road construction plan had an area development component. This was intended to enhance the benefits of the project for local communities and especially ethnic minorities through the construction of community roads, water and sanitation facilities and education programmes. However trade projects are often cross-border, which involves multiple donors. This situation makes management and oversight of outcomes beyond the physical infrastructure difficult, as it was in this case. In this project, analyses were mixed – women benefitted from the road, but were also more exploited as a result of it. This suggests that the challenges of using trade and investment for inclusive growth lie not only in careful project design but in donor co-ordination.\(^{17}\)

Orthodox trade theory suggests that by offshoring labour-intensive manufacturing processes from advanced to developing countries, wage differentials between high-skilled and low-skilled workers should narrow in the latter. But in practice, skill-biased technological change raises the demand for high-skilled workers worldwide (Brooks and Go, 2012). Furthermore, prime-age workers with only completed lower secondary education would be regarded as low-skilled in advanced countries, but high-skilled in poorer developing countries. Hence greater trade openness in the SEA countries may have widened wage differentials, and could continue to do so, underlining the importance of continuing to raise the average number of years spent in education as well as raising its quality.\(^{18}\) Policies aimed at enhancing the competitiveness of sectors with greater export elasticity of

---

\(^{15}\) These include Armenia, Azerbaijan, Bangladesh, Cambodia, Georgia, Indonesia, Kazakhstan, Kyrgyz Republic, Mongolia, Nepal, Pakistan, Philippines, Sri Lanka, and Tajikistan.


\(^{17}\) One suggestion not mentioned in the report, but that might work, would be to allow for additional flexibility in the project over time, in the same way as fragile states projects are done. This is more time intensive for the project officer, but given the complex connections with social outcomes it may be of greater benefit.

\(^{18}\) Between 1995 and 2010, average years spent in education in Southeast Asia rose from 5 to 7 (Brooks and Go, 2012).
employment (especially for women and youth) could lead to higher employment creation and be more pro-poor. For example, most poor people still work in the informal sector or within countries or regions that are not well connected to economic centres. Better connectivity through improved hard and soft infrastructure would assist deeper integration and enhance opportunities for economic participation in value-added trade networks. Empirical evidence suggests that backward participation in global value chains (GVCs) tends to reduce wage inequality (backward participation is importing semi-finished goods for assembly into finished products for export) (OECD, 2015b).

While increased trade and investment create new opportunities, they also change existing production structures, entailing a reallocation of labour. Well-functioning labour markets combined with trade adjustment programmes could allow workers to better adapt to changing circumstance for example by aiding migration towards locations, most likely in towns and cities with growing industries, consequently shortening the time spent under- or unemployed (ESCAP, 2007). The ease of adjustment to changing production structures is also a function of growth; job-loss may be frequent, but new jobs can be found rapidly. Labour market institutions and regulations are also important. The World Bank “Doing Business” indicators put the richest SEA countries high on the index of labour flexibility, whereas Indonesia is one of the lowest in the world.

Labour market flexibility needs to be balanced with protection for low-income workers through implementing laws that guarantee a minimum or a “living wage” in the formal sector. In order to improve the bargaining position of workers there, collective bargaining and unionisation of workers should be guaranteed, but politicisation of the unions avoided.

Finally, women’s participation in the economy is key to promoting inclusiveness and this inclusion cannot happen without the strong role of the private sector, particularly SMEs, which are a significant source of employment for women in SEA countries. Women face barriers in areas including legal rights and employment discrimination, and need to have protection for their basic rights to participate in the economy with equal opportunity (World Bank, 2013).

<table>
<thead>
<tr>
<th>Elements for discussion</th>
</tr>
</thead>
<tbody>
<tr>
<td>How did trade drive structural change in SEA?</td>
</tr>
<tr>
<td>What is the impact of increased participation in production networks on wage inequality in SEA countries?</td>
</tr>
<tr>
<td>Is there a trade-off between job protection and job creation in the export-oriented manufacturing sector?</td>
</tr>
<tr>
<td>Are there trade policies that could improve the employment prospects of the lowest skilled workers?</td>
</tr>
<tr>
<td>What are the main challenges in terms of public sector capacities, skills and tools to design and implement Inclusive Growth policy packages?</td>
</tr>
</tbody>
</table>

19 There is some evidence that foreign-owned firms in Asia offer higher wages and better conditions, and have better labour-management processes (Brooks and Go, 2012).
### BOX 3. NATIONAL POLICIES AND CHALLENGES FOR PROMOTING INCLUSIVE GROWTH IN SEA COUNTRIES

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
</table>
| Cambodia | Cambodia’s National Social Protection Strategy for the Poor and Vulnerable, 2011-2015 (NSPS) recognises that social protection helps people cope with major sources of poverty and vulnerability while promoting human development. It consists of a broad set of arrangements and instruments designed to: (i) protect individuals, households, and communities against the financial, economic, and social consequences of various risks, shocks, and impoverishing situations; and (ii) bring them out of poverty. Social protection interventions include, at a minimum, social insurance, labour market policies, social safety nets, and social welfare services. The NSPS complements other sector policies, plans, and strategies of line ministries and stakeholders involved directly or indirectly in social protection. The strategy is aligned with and makes operational the priority actions laid out in the Rectangular Strategy Phase III and the National Strategic Development Plan Update, 2009-2013.  
| Indonesia | The new Social Protection Framework comprised of three clusters with objective to improve the social and economic well-being of poor and near-poor household. The first cluster consists of major social assistance programmes, including Raskin (rice subsidies), the Unconditional Cash Transfer and Conditional Cash Transfer, Askeskin programme (subsidised social health insurance for the poor), and small but growing scholarship programme. This cluster forms the core of Indonesia’s social protection system. The cluster two constitutes primarily of the National Programme for Community Empowerment (PNPM), which covers approximately 200 million people in over 70,000 villages across the country with goal to stimulate pro-poor local economic growth while also strengthening governance and institutions.  
The Indonesian government is committed to delivering universal social protection for all citizens. The government acknowledges the importance of social protection in building a productive, educated, skilful, and healthy nation. In its Medium Term Development Plan 2010-2014, the government stresses the development of social protection programmes that guarantee universal access to health care, proper nutrition, education, employment, as well as income security for all citizens, including those with disability and the elderly.  
Indonesia also signed the tripartite Indonesian Jobs Pact 2011-2014 in April 2011. The pact focuses on creating employment and provides social protection in response to the global economic crisis as well as economic development of the country. Indonesia also adopts the International Labour Conference Recommendation number 202 on National Floors of Social Protection.  
(as cited in ADB SPI Indonesia Country Report, forthcoming) |
<p>| Lao PDR | In 2013, a national committee to establish the Lao PDR’s national policy on social protection was established by the Minister of Labour and Social Welfare (MLSW). There are 21 representatives who come from main ministries, including MLSW, Ministry of Health, Ministry of Education and Sports, |</p>
<table>
<thead>
<tr>
<th>Country</th>
<th>Details</th>
<th>Source</th>
</tr>
</thead>
</table>
| Lao PDR     | Ministry of Planning and Investments, Ministry of Agriculture and Forestry, Ministry of Home Affairs, Ministry of Industry and Commerce, and Ministry of Finance. A working committee to draft the strategy comprises the same ministries, plus a person from the Social Division of the Poverty Reduction Fund and a representative from the Lao Federation of Trade Unions. There is currently no sector working group (or sub-sector working group) on social protection. Such a working group might help to bring together all interested development partners and stakeholders and lend more coherence to this burgeoning field of interest. It would, however, require a high level of coordination given its multi-sector scope.  
*Source: ADB Lao PDR SPI Country Report (forthcoming)*                                                                 |                                                                                                                                                                                                                            |
| Philippines | In May 2012, the Philippine government approved the Social Protection Operational Framework, which serves as the overall guide to implementing social protection programmes and other related policies. The framework centres on providing better and improved quality of life for the beneficiaries, within the context of the Philippine Development Plan, to empower and protect the poor, vulnerable and disadvantaged individuals, families and communities from individual life cycle, economic, environmental and social risks.  
(as cited in ADB SPI Philippines Country Report, forthcoming)                                                                 |                                                                                                                                                                                                                            |
| Thailand    | In Thailand no single agency is responsible for the management of social protection. Policy creation and implementation is scattered across multiple ministries, multiple agencies within ministries, and between central and local levels of government. From a conceptual point of view, the development of social protection in Thailand has focused on four broad areas: social assistance, social insurance, social service, and social support partnerships.  
Thailand’s budget structure includes elements for social protection. In 2012, the total expenditure for social protection and services amounted to 179.03 billion Thai baht, or 7.5% of the total budget. Some social protection funds were allocated in the form of social security for those losing income due to illness. Other funds compensated the general public and retired government employees.  
Note: This division of social policy areas is used in academic writing as well as official government documents that discuss social protection. For academic writing, see Worawan Chanduoiwit et al. (2010), Klong karn wichai ruen thang ruak kong sawaddikarn sangkong sram rap kon thai (Research Programme on Options for Social Welfare for the Thais), TDRI. For government documents, see the Ministry of Society and Human Security (2010), Tit thang karn chat sawadikarn sangkhom nai chowng khong paen pattana setthakit laeo sangkhom haen chat chabub thi 11 (2555-2559 B.E) [Direction for the Arrangement of Social Welfare during the Eleventh National Economic and Social Development Plan, 2012-2016].  
*Source: ADB Thailand SPI Country Report (forthcoming)*                                                                 |                                                                                                                                                                                                                            |
| Viet Nam    | In 2012, the Fifth Party Congress approved Resolution No. 15 (PR 15). Based on this, the government issued Decision No. 70 to implement the PR 15. The overall objective is to enhance the material and spiritual life of people with                                                                                                                                                                                      |
merits, striving for people with merits to have minimum living standards equal
to or higher than the average standards in their areas by 2015 and to achieve
social security for the whole population, ensuring minimum levels in income,
education, housing, clean water and information, making contribution to
gradual enhancement of incomes, ensuring secured living and happiness of the
people.

The Resolution includes the following tasks related to social protection:

By 2020, ensure that about 50% of labour force will participate into social
insurance and 35% of workforce contributes to the unemployment insurance.

Continue to expand the coverage with appropriate form of support; gradually
increase benefit level of regular social assistance in line with the availability of
the State Budget and with socio-economic development. By 2020, have more
than 2.5 million beneficiaries of regular allowances, of which more than 30%
received social pensions.

Implement the emergency social assistance to timely support the people
suffering from accidents, natural disasters, floods with losses in lives, and to
to ensure the minimum levels of basic social services for the people, especially
the poor, ethnic minority and disadvantaged people.

Ensure minimum education. By 2020, achieve net enrolment ratio of primary
education at 99%, lower-secondary education at 95%; 98% of people from age
15 and up are literate, 70% trained workforce.

Ensure minimum health care. By 2020, more than 90% of children below one
year-old should have received full vaccination; rate of underweighted
malnutrition among children under age of 5 reduced below 10%. Develop
policies to encourage people, especially people with middle incomes, to
participate into health insurance. By 2020, more than 80% of the population
should participate in health insurance.

Source: ADB SPI Viet Nam Country Report (forthcoming)

REFERENCES

ADB (2015), Asian Development Outlook: Financing Asia’s future growth, ADB, Mandaluyong City,

ADB and ADB Institute (2014), ASEAN, PRC and India: The Great Transformation, Asian
Development Bank Institute, Tokyo,


Growth”, PIDS Discussion Paper No. 2015-01, Philippines Institute for Development Studies,
Manila.


Asher, M.G. and F. Zen (2015), “Social Protection in ASEAN: Challenges and Initiatives for Post-
ASEAN and East Asia (ERIA), Jakarta.

OECD (2012), Policy Priorities for International Trade and Jobs, (eds), D. Lippoldt, e-publication,


