Asia-Pacific
Economic Cooperation

APEC Symposium on Socio-Economic Disparity

| Date | June 28-29, 2006
| Venue | Seoul, The Republic of Korea
| Host | APEC
Ministry of Foreign Affairs and Trade (MOFAT), The Republic of Korea
| Organizer | Korea Institute for International Economic Policy (KIEP)

APEC

The Economic Committee
November 2006

Asia-Pacific
Economic Cooperation

THE ECONOMIC COMMITTEE
NOVEMBER 2006

APEC SYMPOSIUM ON SOCIO-ECONOMIC DISPARITY

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MINISTRY OF FOREIGN AFFAIRS AND TRADE (MOFAT),
THE REPUBLIC OF KOREA

ORGANIZER: KOREA INSTITUTE FOR INTERNATIONAL ECONOMIC POLICY (KIEP)

Table of Contents

Session II. Case Studies in the Socio-Economic Disparity of APEC Economies (Background, Major Factors, and Policy Experiences)

Presentations

Session II (continued)

Presentations

Session III. Sharing Policy Experiences toward an APEC Community

Presentations

Tables

Session I. Socio-Economic Disparity in APEC and the World (Scope, Current Situation, and Trends)

Figures

Keynote Speech

Warm Hearts and Cool Heads: Promoting Growth and Opportunity in a Globalizing Economy

Session I. Socio-Economic Disparity in APEC and the World (Scope, Current Situation, and Trends)

Globalisation and Socio-Economic Disparities

Social Safety Nets and Socio-Economic Disparity under Globalization

Session III. Sharing Policy Experiences toward an APEC Community

What Future for Europe's Economic and Social Model?

Foreword

One of APEC's core goals has been the promotion of economic prosperity and stability in the Asia-Pacific region for the common good of the people by reinforcing the multilateral trading system and eliminating barriers to trade and investment. There is no doubt that trade and investment liberalization greatly contribute to the economic growth and welfare of the people in the APEC region.

The rapidly transforming global economic landscape and increased integration, however, have been associated with problems such as increasing disparity among sectors and groups in both developed and developing economies. Socio-economic disparity issues have risen as a great challenge facing APEC economies, in that they are believed to be obstacles to trade and investment liberalization. To meet this challenge, APEC Leaders agreed to confront the common task of addressing the problems of socio-economic disparity in APEC economies by conducting research on the issues at the Leaders' Meeting in Busan on November 2005, and in response to the Leaders' mandate, the "APEC Symposium on Socio-Economic Disparity," which was held in Seoul during 28–29 of June, was co-hosted by the Ministry of Foreign Affairs and Trade of the Republic of Korea (MOFAT) and the Korea Institute for International Economic Policy (KIEP). Through undertaking this challenge of socio-economic disparity, I sincerely hope that liberalization can be further promoted, which in turn will promote the economic growth of the region.

The symposium was well represented by the economies of seventeen members and those of several non-members, as well as international organizations such as the OECD. Eighteen speakers and four moderators led the five sessions: the "Opening Session," "Socio-Economic Disparity in APEC and the World (Scope, Current Situation, and Trends)," "Case Studies in Socio-Economic Disparity of APEC Economies (Backgrounds, Major Factors and Policy Experiences)," "Sharing Policy Experiences towards an APEC Community," and "Wrap-up and Closing."

I acknowledge the co-hosts of the symposium, the Ministry of Foreign Affairs and Trade, the Republic of Korea, and the Korea Institute for International Economic Policy (KIEP) for successfully enlightening the issue of socio-economic disparity and sharing experiences and policy responses among APEC members. Also, I would specially like to thank Mr. Moon-up Sung, Program Director of this project, and all the speakers at the symposium who contributed to its successful outcome. I sincerely hope that the findings of the symposium will contribute to the creation of good policy models that will help reduce socio-economic disparity and emphasize the necessity of ensuring all people with the opportunity to share the benefits generated by trade liberalization and economic growth.

Dr. Kyung Tae Lee
Chair, APEC Economic Committee

12백면

Symposium Program[1)]

Asia-Pacific Economic Cooperation

APEC Symposium on Socio-Economic Disparity

Date: June 28-29, 2006
Venue: Seoul, The Republic of Korea
Host: APEC, Ministry of Foreign Affairs and Trade of Korea (MOFAT)
Organizer: Korea Institute for International Economic Policy (KIEP)

Day 1: June 28 (Wednesday)

18:30 – 20:00 **Welcoming Reception:**
Hosted by Myung-hwan Yu, Vice Minister of Foreign Affairs and Trade, The Republic of Korea

Day 2: June 29 (Thursday)

08:30 – 09:00 **Registration**

09:00 – 09:15 **Welcoming Remarks**
Duck-Soo Han, Deputy Prime Minister and Minister of Finance and Economy, The Republic of Korea

09:15 – 09:30 **Congratulatory Remarks**
Le Cong Phung, First Deputy Minister for Foreign Affairs, Vietnam
APEC 2006 SOM Chair

09:30 – 10:20 **Keynote Speech:**

- **Warm Hearts and Cool Heads: Promoting Growth and Opportunity in a Globalizing Economy**
  - *Peter R. Orszag, Director of the Hamilton Project, Brookings Institution*

1) The venue of the symposium is the Emerald Room at the Shilla Hotel in Seoul, The Republic of Korea.

- **Global Income Disparities**
  - *Richard Cooper, Professor, Harvard University*

10:20 - 10:30 **Coffee Break**

10:30 - 11:50 **Session I. Socio-Economic Disparity in APEC and the World (Scope, Current Situation and Trends)**

Moderator: *Fraser Cameron (European Policy Centre)*

Presentation:

- **Globalisation and Socio-Economic Disparities**
  - *Raymond Torres (Head, Employment Analysis and Policy Division, OECD)*
- **Socio-Economic Disparity in APEC and the World with Special Reference to Canada**
  - *James W. Dean (Professor Emeritus, Simon Fraser University)*
- **Social Safety Nets and Socio-Economic Disparity under Globalization**
  - *Hsiao-hung Nancy Chen (Professor, National Chengchi University/APEC SSN CBN, Chinese Taipei)*

Open Discussion

12:00 - 13:30 **Luncheon:**
Hosted by Joong-Keun Kim, Deputy Minister for Trade, MOFAT, The Republic of Korea

13:30 - 14:40 **Session II. Case Studies in Socio-Economic Disparity of APEC Economies (Backgrounds, Major Factors, and Policy Experiences)**

Moderator: *Peter R. Orszag (Director of Hamilton Project, Brookings Institution)*

Presentation:

- **Economic Crisis and Development of Socio-Economic Disparity in Korea**
  - *Cheonsik Woo (Senior Fellow, KDI)*
- **Socio-Economic Disparity of APEC Economies: Experience in Chile**
  - *Hernan Gutierrez B. (Minister Counselor for Economic and Commercial Affairs, Economic and Commercial Department, Embassy of the Republic of Chile, The Republic of Korea)*

- **Socio-Economic Disparity and Social Security in China**
  - *Zhang Yali (Deputy Director General, Ministry of Labour and Social Security, People's Republic of China)*
- **The Present Condition of Economic Inequality in Japan**
  - *Nobutaka Tanimoto (Deputy Director for Economic Assessment and Policy Analysis, Cabinet Office, Japan)*

Open Discussion

14:40 - 14:50 **Coffee Break**

14:50 - 16:00 **Session II. (Continued)**

Moderator: *Richard Cooper (Professor, Harvard University)*

Presentation:

- **New Zealand: The Social Report and Socio-Economic Disparities**
  - *Ross Judge (General Manager for Strategic Social Policy, Ministry of Social Development, New Zealand)*
- **Socio-Economic Disparity: Learning from Recent Experience in Peru**
  - *Javier Edmundo Abugattas Fatule (Vice Minister of Economy, Ministry of Economy and Finance, Peru)*
- **Socio-Economic Disparity: Thailand's Experiences**
  - *Pattama Teanravisitagool (Director, Office of the National Economic and Social Development Board, Thailand)*

Open Discussion

16:00 - 16:10 **Coffee Break**

16:10 - 17:30 **Session III. Sharing Policy Experiences towards an APEC Community**

Moderator: *James W. Dean (Professor Emeritus, Simon Fraser University)*

Presentation:

- **What Future for Europe's Economic and Social Model?**
  - *Fraser Cameron (Senior Advisor, European Policy Centre)*

- **Socio-Economic Disparity of APEC Economies: Experience in Indonesia**
  - *Tb. A. Choesni (Director, Trade, Investment and International Economic Cooperation, State Ministry for National Development Planning – National Planning Agency, Indonesia)*
- **A U.S. Perspective on Socio-Economic Disparities**
  - *Joseph Yun (Minister-Counselor, US Embassy in the Republic of Korea)*
- **Policy Options Tackling Socio-Economic Disparity in APEC**
  - *Heungchong Kim (Research Fellow, KIEP)*

Open Discussion

17:30 – 18:00 **Session IV. Wrap-up and Closing**

Moderator: *Kyung Tae Lee (President, KIEP)*

All Session Moderators

Overview and Executive Summary

The symposium on Socio-economic Disparity, co-sponsored by the Ministry of Foreign Affairs and Trade of the Republic of Korea and the Korea Institute of Economic Policy was held on June 28–29 at the Shilla Hotel in Seoul, the Republic of Korea. The two-day symposium was held under the title "APEC Symposium on Socio-economic Disparity." The symposium was attended by government officials, academics, and experts from the business and private sectors of the following economies: Australia, Canada, Chile, China, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, Peru, the Philippines, Russia, Singapore, Chinese Taipei, Thailand, the United States, and Vietnam. Speakers from non-APEC member economies, i.e. Belgium (European Policy Center) as well as international organizations i.e. OECD also attended the meeting.

The symposium was divided into five sessions, including the opening and closing sessions, led by eighteen speakers and four moderators. These were: "Opening Session," "Socio-Economic Disparity in APEC and the World (Scope, Current Situation and Trends)," "Case Studies in Socio-Economic Disparity of APEC Economies (Backgrounds, Major Factors and Policy Experiences)," "Sharing Policy Experience Towards an APEC Community," "Wrap-up and Closing." The symposium was successful in deepening our understanding of socio-economic disparity issues and for sharing experiences and policy responses specifically for the APEC region. The symposium was also a great opportunity to explore model policy examples from other parts of the world that may be applicable to our region.

I. The outcome of the symposium:

1. Opening Session

The APEC Symposium on Socio-economic disparity started with the welcoming remarks of the deputy prime minister and minister of finance and economy of the Republic of Korea, Minister Duck-Soo Han. Mr. Han made it clear that this symposium was the answer to President Roh Moo-Hyun's suggestion to examine the socio-economic disparity that accompanies liberalization and sustainable growth, the entitled goal of APEC economies for co-prosperity. Mr. Le Cong Phung, first deputy minister for foreign affairs of Vietnam and APEC 2006 SOM chair, implied in his congratulatory remarks that socio-economic disparity is now the biggest problem in the world, as the insufficient supply problem has been more or less resolved with the larger amount of assets being produced. Agreeing with the importance of better distributive measures in a globalized world, Dr. Peter R. Orszag, director of the Hamilton Project, the Brookings Institution, pointed out the failure of conventional research theories such as yo-yo (meaning *you're on your own*) economics. Instead, Dr. Orszag introduced a more randomized and behavioral approach, concluding that broad-based economic growth is stronger and can coexist with economic security with the help of effective government. Professor Richard Cooper from Harvard University mentioned that socio-economic disparity is much more complex than we imagine, because the world has grown in volume in many aspects and is interrelated due to globalization. In consequence, the distribution of wealth shows a variety of patterns on a local scale and the gap between the rich and the poor has increased; this gap leads to many political problems such as terrorism and migration. Prof. Cooper said that income disparity has diminished from a global point of view but that it was socio-politically problematic on the local level.

Four speakers all agreed that the world is producing more wealth and that poverty has diminished in general; however, socio-economic disparity, which threatens co-prosperity and sustainable growth, has also increased. It was emphasized that the problem should be examined in more practical measures to be appeased. They showed confidence in this APEC Symposium on Socio-economic Disparity, where international academics and policy makers worldwide shared their thoughts and policy responses.

2. Session I. Socio Economic Disparity in APEC and the World (Scope, Current Situation, and Trends)

Mr. Raymond Torres from the OECD spoke about globalization—a process characterized by the rapid economic integration among a growing number of countries. Some regard this phenomenon as a major engine of economic prosperity, while others worry about its social consequences. More recently, it seems that these different positions have converged somewhat. Indeed there is growing recognition that open markets are a factor behind economic growth, but that at the same time economies need to adjust to take advantage of the benefits of globalization. And this adjustment is neither automatic nor painless. In other words, there may be losers as well as winners from globalization, and this is a role that policies must play to ensure that the process is as smooth and efficient as possible. The purpose of this paper is to i) describe trends in socio-economic disparity recorded over the past couple of decades, ii) discuss the extent to which these trends are related to trade and investment liberalization and iii) examine policy issues arising from these findings. Before that, key trends in globalization were described.

In the second presentation, led by Professor James W. Dean, he argued that according to HDI, which is a comparative measure of poverty, literacy, education, life expectancy, childbirth, and other factors for countries worldwide, the world is mostly improving with two major exceptions: post-Soviet states and Sub-Saharan Africa, both of which show steady decline. In the case of Canada, though culturally close to the United States, its preferences for income equality and security are closer to Europe's. It assigns the government an economic role that is closer to Europe's or Asia's than the United States. Its exports are much more resource-intensive than those of the United States, Europe, or Asia. This implies more income variance over time and space and has indirectly prompted more re-distributive policies. And finally, its exports and imports have risen by almost one-third since its FTA with the United States in 1989. Yet its HDI (the UN Human Development Index) has remained high: hence more "globalization" has not hurt Canada in that respect. However, income inequality is growing due to the following reasons: increased import competition from low-wage Asia, skill-biased technical changes, and star-system executive compensation. Professor Dean concluded that technology and trade seem to have increased disparity in returns to labor over the past decade or two. However, outcomes differ between countries, apparently depending on relative preferences for equality versus meritocracy. Equality derives from regulated labor markets and/or re-distributive taxes and transfers. Perhaps France and Germany rely more on the former and Scandinavia more on the latter: hence Scandinavia's higher productivity growth and lower unemployment.

Regarding Chinese Taipei's case, Professor Nancy Chen informed us that as of the end of 2003, the Gini coefficient of Chinese Taipei was 0.343, compared to that of 0.277 in 1980; income discrepancies between the highest and the lowest fifth households have evidently increased. The income gap between the highest 20 percent and the lowest 20 percent of households has grown from 4.17 times greater in 1980 to 6.07 times greater in 2003. Widening income differentials are certainly not unique to Chinese Taipei; they seems to have become a ubiquitous phenomenon worldwide. Tracking parallel changes in income distribution is definitely a complicated task. Income inequality is hard enough to measure in developed countries, very difficult in less developed countries, and is virtually impossible in the poorest. Nevertheless, given the aforementioned, it perhaps would not be too presumptuous to state that those inspired by a vision of one global economy seem to have ignored the issue of income and wealth inequality at their peril. Chen proposed that a comprehensive approach which will blend welfare policy, labor policy, and taxation policy together is paramount for any of the APEC economies that care to solve the disparity problem in an ever globalized world.

3. Session II. Case Studies in Socio-Economic Disparity of APEC Economies (Backgrounds, Major Factors and Policy Experiences)

During session 2, policy-makers from the Republic of Korea, Chile, China, Japan, New Zealand, Peru, and Thailand introduced their economies' experiences with socio-economic disparity. Dr. Woo Cheonsik (KDI, The Republic of Korea) explained that the Republic of Korea expanded its economy to overcome 1997's financial crisis, which increased its disparity problems such as unemployment, income polarization, and growing social tension. Policy thus far has not been effective enough to appease the situation; the social safety net is underdeveloped and educational and training systems are not sufficient. Dr. Woo called for proactive and innovative policy responses from a long-term perspective to re-motivate workers and create sustainable social cohesion.

Mr. Hernan Gutierrez B., Commercial Attaché from the embassy of Chile in the Republic of Korea, showed the favorable results of Chile's "growth with equity" policy: high economic growth, higher minimum wages, and income distribution. And this has proved that social expenditure has very important effects on an overall socio-economic environment; social policy can be a more effective key to reducing socio-economic disparity than economic growth. Mr. Gutierrez B. concluded that the Chilean government tries to improve this impact by decentralization and public social services reform.

Ms. Zhang Yali's presentation dealt with the social security framework of China. In China, the aging of the population will put more pressure on the pension system and medical expenditures, while the progress of urbanization will require the establishment of a social security system that covers both rural and urban areas, in addition to improvements to the system in those areas in which it already exists. More employees of non-state-owned businesses and people employed in a flexible manner will be covered by the social insurance system as employment forms become more diversified. All this will raise new requirements for the smooth operation of China's social security system and for the establishment of a long-term mechanism which will ensure the sustainable development of social security services.

Mr. Nobutaka Tanimoto covered the condition of economic inequality in Japan. He argued that economic inequality often expresses itself as a social phenomenon. Although inequality in income, property, etc. have been pointed out as factors involved in the expansion of economic inequality, essential increases cannot be found in the statistical data. As middle-class consciousness is deeply rooted in Japanese society, the expansion of inequality in individual *life feelings* has not taken hold. However, changes to the younger age group's employment/lifestyle, (such as ″freeters″) can become a factor of crucial increases in inequality, which needs to be acknowledged.

Mr. Ross Judge discussed the socio-economic disparity issue in New Zealand. New Zealand has 4 million people—1/12th the population of the Republic of Korea in 3 times the land area. New Zealanders mainly originate from European immigration since 1840, and mostly from Britain. New Zealand has a significant indigenous Maori population who are retaining and invigorating their culture, but are also integrating with Europeans. For example, over 40 percent of Maori state that they are of both Maori and European ethnicity. Immigration from Pacific nations occurred in large numbers in the late 1960s and 1970s. More recently there has been much higher immigration from Asia, especially from

China, India, and the Republic of Korea. New Zealanders mainly live in urban areas despite their reputation as a pastoral nation with major exports of dairy products, meat, wool, wood, and fish. People migrating to New Zealand tend to settle in its major city, Auckland, and emigrate from everywhere. One third of Aucklanders were born overseas. In terms of disparity, it is significant that 30 percent of families with children are sole parent households. The Social Report, which measures the level and distribution of social wellbeing, has been welcomed by New Zealanders in solving issues of socio-economic disparity in New Zealand. It has ten desired social outcomes or 'outcome domains.' It uses 42 indicators to describe social conditions. The Social Report has gained widespread support in New Zealand as a measure of social outcomes including socio-economic disparity.

Mr. Abugattas from Peru continued by discussing the complexity of socio-economic issue in Peru. He said that overall investment liberalization greatly contributes to economic growth. However, the welfare of the people in the APEC region is not improving enough. Disparity is reflected in social, economic, environmental, and cultural aspects. Fragmentation is a huge risk to society. And people have limitations in their perceptions and descriptions of complex realities. There has been insufficient improvements in awareness and action in sectors such as employment, one year before and after each birth, and local management capacity. Models to improve socio-economic disparity are complex, dynamic, and interactive. Complexity perhaps demands simple actions. Mr. Abugattas concluded the session by recommending the integration of socio-economic and environmental policies, and long-term goals are urgently needed to tackle two basic aspects in economies where disparity is high.

Finally, Dr. Pattama Teanravisitagool presented on the socio-economic disparity issue in Thailand. The Thai economy moved from a high growth period in the 1980s and early 1990s to a moderate growth path with restored stability after the crisis. Economic growth has been sustained at a satisfactory level since 1999 except for 2001, when the world economy slowed down quite sharply. Stability has been restored with a stabilized exchange rate, low inflation, a drop in the unemployment rate, a current account surplus, and replenished international reserves at an ample level measured in terms of short-term foreign debt and imports. However, rising oil prices since 2004 have placed Thailand at risk, worsened by a drought in late 2004 that continued in H1/2005, and impacts of the tsunami were felt throughout 2005. The poverty problem is again a risk. The head-count ratio of poverty, based on a newly established poverty line, fell continuously from 1988 to 1996. But then it reversed itself and increased from 1998 to 2000. The poverty incidence has improved since 2002, due to a strong economic recovery.

The North and Northeast were mostly hit by the crisis as far as the poverty problem is concerned. This is linked directly to the unemployment problem after the crisis as a consequence of labor being laid off from factories. The evidence suggests that poverty has declined more rapidly in the better-off regions than in the poorer regions. The differences in poverty across rural and urban areas mirror those across regions. Poverty is most pronounced in rural areas, followed by sanitary districts and municipal areas. Mr. Teanravisitagool concluded the session by providing Thailand's movement away from EAEM (East Asian Economic Model) to a Dual Track Development Model, global reach and local links as one solution in solving the issue of socio-economic disparity.

4. Session III. Sharing Policy Experiences toward an APEC Community

Dr. Fraser Cameron began session 3 with his presentation called *What future for Europe's economic and social model?* Dr. Fraser argued that the EU faces a major challenge in meeting the ambitious goals that it set itself in the Lisbon Agenda–designed to make the EU the most competitive economy in the world by 2010. The failure of the three major continental countries (France, Germany, and Italy) to implement much-needed reforms threatens the economic and social cohesion of the euro-zone and of the EU. In order to ensure that member states carry out their commitments, a new focus is required along three lines: more coherence and consistency between policies and participants, improvements to the process for delivery by involving national parliaments and social partners, and clearer communication on objectives and achievements.

Mr. Joseph Yun provided a US perspective on socio-economic disparity. According to Mr. Yun, two basic premises of US thinking on socio-economic disparities are: 1) the "micro," or domestic level, which implies that a market economy produces great overall wealth within which winners and losers are created 2) the "macro-," or international level, which says there is increased openness, transparency, and trade. The second one was a fundamental premise of this symposium. The United States' Gini Coefficient has increased; US income and wealth inequality has steadily increased to reach a level that is above the norm for developed countries. Compared to the eighteen APEC economies, the United States had one of the higher Gini Coefficients, along with Malaysia, Peru, Papua New Guinea, Mexico, and Chile. And China's is also rapidly increasing. This suggests that many APEC economies have plenty of work to do and valuable lessons to share on how to address this disparity.

Finally, Dr. Heungchong Kim presented *Policy Options Tackling Socio-economic Disparity in APEC.* Dr. Kim made the case that the overarching goal for APEC economies is trade and investment liberalization and sustainable economic growth. But widening socio-economic disparity hinders the benefits generated by economic growth. Socio-economic disparity is deeply related to socio-economic exclusion or isolation. Disparity is a very natural thing and should not be too problematic with high mobility within an economy. But when socio-economic disparity comes with social immobility, the government is expected to do something. Three measures to narrow socio-economic disparity are capacity building, economic reform, and anti-corruption measures. Transparency and anti-corruption reform can introduce positivism into the economy, narrowing disparity. It is now a very active policy. This is also important for protecting social capital from corruption.

5. Session IV. Wrap up and Closing

President of KIEP and Chair of the APEC Economic Committee, Dr. Kyung Tae Lee, led the last session. During this session, all speakers and discussants further developed the ideas presented during the symposium and delineated challenges and impediments related to socio-economic disparity issues. In addition they conversed on how APEC economies could generate greater benefits from trade liberalization and economic growth, while solving the issue of socio-economic disparity. The symposium was successful in outlining the issues found in the APEC region regarding this important topic and exploring ways to improve the situation the region is currently experiencing.

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Welcoming Remarks

Mr. Duck-Soo Han, Deputy Prime Minister and Minister of Finance and Economy, The Republic of Korea

26백면

Welcoming Remarks

Duck-Soo Han
Deputy Prime Minister and Minister of
Finance and Economy, The Republic of Korea

I. Opening Remarks

Mr. Le Cong Phung, Chair of APEC 2006 SOM,
Keynote speakers, Dr. Peter R. Orszag, Director of Hamilton Project a the Brookings Institution and Professor Richard Cooper of Harvard University,
High-level policy makers and researchers from member countries,
Distinguished guests,

On behalf of the Korean government, I am honored to welcome all of you to Korea and this important symposium on socio-economic disparity.

As you are well aware, socio-economic disparity is a clear and present danger to liberalization and sustainable growth, which is also one of the APEC's overarching goals. Today, right here in out backyard, we are seeing it growing between Member countries and within the region.

You will recall the 13th APEC Leaders' Meeting was held in Busan last November. At the proposal of my President Roh Moo-hyun, the Meeting was quick to see the vital importance of the challenges and impediments related to the issue. I think the move was truly appropriate and timely.

Our gathering today is a follow up of the Agreement, directly responding to the growing concern in and outside the region. I am also delighted to see this Symposium has brought a right mixture of leading scholars and experts from around the world together.

Today, the Symposium has in store a very interesting sharing exercise on APEC members' experiences in reducing socio-economic disparity. I hope this will lead us to some alternative for APEC becoming a dynamic community for sustainable growth and co-prosperity.

II. Socio-Economic Disparity: Why and How?

Now, allow me to take this opportunity to share with you the causes and remedies for socio-economic disparity as we at the Korean government understand.

The Gini coefficient, an indicator of income inequality, has risen sharply since the 1990s in APEC Member countries, pointing to growing socio-economic disparity in the region.

In some corners of the world, differing views do exist. They argue that trade and investment liberalization has aggravated socio-economic disparity.

The point they have raised, if I may repeat, is two-fold. On one hand, trade and investment liberalization indeed pushes up productivity in those sectors with competitive edge, leading to an overall income increase of the society. On the other hand, the benefits might not trickle down to those in the less-competitive sectors, widening the relative income gap.

Another school claims that technological advancement has direct relevance to widening socio-economic disparity. It, too, gets fewer benefits to those in sectors with weaker productivity increase.

William Cline at the Institute for International Economics has reported interesting findings from his study of data from 1973 to 1993 with which you may be very familiar. That is, technological advancement is a five times more influential factor in widening income inequality than trade expansion.

What should be noted, however, is that trade and investment liberalization or technological advancement per se might not be the underlying cause for widening disparity.

I would think the more fundamental reason for this disparity can be found in adaptability and preparedness of each and every economic player in a new environment. Therefore, trade and investment liberalization and technological advancement are secondary push factors as far as growing disparity is concerned.

To my best understanding, no country would deny trade and investment liberalization and technological advancement just because of the concern over disparity growth.

So, if you ask me what I think most important in resolving socio-economic disparity, my answer would be: "It's an environment where the benefits of trade and investment liberalization and technological progress trickle down to all economic players. And we have to make it."

Such benefits can spread far and wide if empowerment of the vulnerable is well-expanded.

There will be little differing views that education and training can be a useful tool for capacity building of the vulnerable to adapt to the new economic environment. It's a solid stepping stone to move to sectors with more competitive edge. In this context, it becomes a social ladder.

Expansion of social safety net will offer those left behind competition opportunities continuously to adapt to new economic environment.

To make this happen, the pie must be big enough to go around. Economic growth through expansion of trade and investment liberalization, just as the APEC's goals, is a precondition.

Indeed, an analysis of data from 80 countries over four decades by the World Bank economists, Dallar and Kraay, does deserve our attention. It suggests that the income of the poor, the bottom fifth of the population, rises about one-for-one with growth in per capita GDP.

III. Korea's Experience in Coping with Socio-Economic Disparity

Distinguished guests,

Now, let me turn to the current socio-economic disparity situation in Korea and our policy experience to cope with them.

As you know very well, we achieve a rapid economic development in Korea, the so-called "the miracle of the Han River," from the 1960s. It also was an effective change agent in readdressing the socio-economic disparity then.

However, we have never been able to remain the same since the 90s, especially after the Asian economic crisis. Externally, globalization and informatization was leading the change. On the domestic front, industrial restructuring was accelerating change in economic policies.

First of all, decent jobs for the vulnerable would be the best possible way to move out of poverty trap and alleviate socio-economic disparity. As we all know, government support can do only so much.

To this end, we are moving ahead with deregulation and opening for jobs growth. Through deregulation we are trying to facilitate investment innovation and startups. Corporate competitiveness is being sought through opening including FTA and DDA negotiations.

Second, we are expanding social safety net. In this process, we are placing priority on workfare support for the vulnerable. We encourage and assist them to break away from poverty trap through workfare.

For example, we plan to introduce the Earned Income Tax Credit (EITC), a tax credit for the vulnerable working people. The more they work, the more tax benefits they are entitled to. It's another form of pro-poor policy.

We do not stop here. Expansion of education and training for the vulnerable is also actively pursued.

Let me again stress the importance of education and training in helping the vulnerable to adapt to change and build capacity to move up the social ladder. Time and again, education and training have played an important role in resolving socio-economic disparity.

As part of this effort, we are expanding support for the low-income families in their education expenses. We have been making strides in promoting industry-academia cooperation. The open vocational education system, under the banner of "Work to School" and "School to Work", is an outcome of such endeavors. All these initiatives are carefully designed to assist the vulnerable to continue upgrading adaptability to change.

An effective and proper delivery mechanism will help us ensuring the intended effects of all these initiatives. In this light, improving the government delivery mechanism is of prime importance for successful implementation.

For instance, the role of local government is brought to the center stage in terms of more effective delivery of services as they better understand the local realities. We have just got it started with integrating services and networking in welfare, employment, medical service and housing.

Congratulatory Remarks

Le Cong Phung, First Deputy Minister for Foreign Affairs,
Vietnam / APEC 2006 SOM Chair

32백면

Congratulatory Remarks

Le Cong Phung
First Deputy Minister for Foreign Affairs,
Vietnam / APEC 2006 SOM Chair

Your Excellency Han Duck-Soo, Deputy Prime Minister and Minister of Finance & Economy of the Republic of Korea,
Mr. Kim Joong-Keun, Deputy Minister for Trade,
Ladies and Gentlemen,

It gives me great pleasure to be present at this important event in the beautiful city of Seoul. On behalf of APEC Senior Officials and in my own capacity, I would like to extend my heart-felt congratulations to the Republic of Korea, who last year introduced important initiative of socio-economic disparity research in APEC and we now see it being realized,. My congratulations also come to the Economic Committee of APEC, the Korean Department of Foreign Affairs and Trade, and the Korean Institute for International Economic Policy for bringing to this Symposium such outstanding scholars and high-ranking officials from Korean and around the world. I am fully convinced that the insights of these esteemed speakers and participants will help ensure the success of our Symposium in bridging the socio-economic disparity and generating practical benefits for the people of the APEC region.

As it has been recalled, this Symposium is follow-up of an important mandate of APEC Leaders last yea, which is "to conduct a study of ways to confront challenges and impediments related to socio-economic disparity issues: in order to expand the circle of beneficiaries of trade liberalization and economic growth. This embodies the over-arching goal of APEC; and more broadly, the vision of an APEC community in which all people can enjoy prosperity, stability, and security.

It is common knowledge that disparity constitutes a big threat to stability and prosperity. Today, as the world is producing the largest amount of assets ever in its whole history, insufficient supply is no longer a problem, but disparities instead. The United Nation's *Report on the World Social Situation 2005* estimates that the richest 20% of the global population accounts for 86% of private consumption, while the corresponding figure for the poorest 20% is just 1%. As the world's assets increase, discontent may also rise at the fact that the assets are not well distributed to the marginalized.

Within the APEC region, given the fact that member economies are at different levels of development, studying on socio-economic disparity and addressing its problems are of great significance. Strengthening foundation of a stable and prosperous community requires disparities in the region be prevented from widening, and preferable, narrowed down. In this connection, this Symposium's purpose of understanding socio-economic disparity within and among APEC members has already been a practical step towards a stable and prosperous community in the APEC region.

More importantly, this Symposium itself is a highlight of APEC Year 2006, the theme of which is "Towards a Dynamic Community for Sustainable Development and Prosperity." This represents a continuity and further progress of the APEC process, most prominently from the Chilean year in 2004, to the Korean yean and now Viet Nam's.

To realize its overall goal, APEC 2006 so far has synchronously accelerated cooperation in 3 major areas, namely (i) Trade and Investment Liberalisation and Facilitation (TILF); (ii) Economic and Technical Cooperation, and (iii) Enhancing Human Security.

In terms of TILF, support for the WTO DDA and implementation of Busan Roadmap towards the Bogor goals have always been high on its agenda. In the 12th APEC Meeting of Ministers Responsible for Trade early this month in Ho Chi Minh City, Viet Nam, Ministers issued a stand-alone statement expressing their strong commitment to the completion of DDA round by the end of this year. The Action Plan to implement the Busan Roadmap towards the Bogor goals is the most prominent feature of APEC 2006. By now, a detailed plan is being developed and further completed to submit to APEC Leaders for consideration and approval this November.

Attention is also paid to the social dimensions of trade and investment liberalization and facilitation and ensuring human security. In terms of Human Security, many new initiatives on Counter-terrorism, Energy Security, Health Security and Disaster Response and Preparedness have been proposed and implemented, most notably including the APEC Action Plan on the prevention and response to avian and influenza pandemics adopted by APEC Health Ministers last April. Bridging the development gap is also highlighted as a priority in ECOTECH cooperation in 2006.

It is in this light that Senior Officials attach high importance to this Symposium in particular and the Research on Socio-Economic Disparities in general, and hope to see some practical reflection of their results onto APEC work as whole. For example, the SCE can consider narrowing the socio-economic disparities among APEC members as one of its work priorities in coming years. Tackling disparities can also be incorporated in the integration with other stakeholders such as International Financial Institutions, the APEC Study Centers Consortium and APEC Business Advisory Council. Clearly, these efforts can take better effects if responsive domestic policies are adopted by each individual economy.

Ministers,
Ladies and Gentlemen,

Fully aware of this, while sustaining its economic growth, Viet Nam has taken proactive approach to bridge disparities among its different regions, After two decades of Renewal process since 1986, its poverty rate has declined from three-quarter to under one-quarter (by UN new standard); hence better conditions to reduce gap between rural and urban areas. Domestically, growth-generated benefits and social equity have been dealt with harmoniously with initial significant successes, thanks to the Comprehensive Poverty Reduction and Growth Strategy adopted by the Government of Viet Nam in 2003. Externally, Viet Nam's active international economic integration has brought about remarkable improvement in people's living standards. In his recent visit to Viet Nam last May, UN Secretary General Kofi Annan acknowledged that "while the development gap among different social strata is widening in other countries, Viet Nam notably still maintains a developmental balance and keep the gap under control". With its coming WTO membership, the government of Viet Nam is going to pay keener attention than ever to the social dimension of the adjustment package to comply with WTO rules.

I believe that the case studies on socio-disparity of APEC economies and their response policies to be presented will be valuable reference package to Viet Nam and other member economies.

Let me now not spend any more precious time of this one-day Symposium, especially given its impressively rich and thorough program. I wish the Symposium a great success and look forward to its concrete recommendations to the Ministers Meeting and the Leader's Meeting this November in Ha Noi, Viet Nam.

Thank you.

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Keynote Speech

Peter R. Orszag, Director of Hamilton Project, Brookings Institution
Richard Cooper, Professor, Harvard University

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Keynote Speech

Warm Hearts and Cool Heads:
Promoting Growth and Opportunity in a Globalizing Economy

***Peter R. Orszag*[1]**
Joseph A. Pechman Senior Fellow
Director of the Hamilton Project
The Brookings Institution

Thank you. I am quite honored to be returning to APEC about a decade after I participated in the 1997 meetings in the Philippines. And thank you to the government of Korea for sponsoring this important symposium.

The great British economist Alfred Marshall once spoke of the need for "cool heads but warm hearts" in making economic policy.[2] The thrust of my speech today is that, in the context of substantial increases in income inequality and given the political economy of globalization, warm hearts are necessary for cool heads – there is no "but" needed.[3]

Long-term prosperity is best achieved neither through an attempt to shut out the forces of global competition, which may seem warm hearted but is ultimately neither achievable nor desirable, nor through the mirage of an excessively individualistic laissez-faire approach, which may initially seem cool headed but ultimately is not.

Instead, policy-makers must embrace the rigors of competition but seek to make economic growth broad-based, to enhance individual economic security, and to design a role for effective government working in conjunction with private markets. These are the themes of the recently launched Hamilton Project at the Brookings Institution, which actively involves former policy-makers such as former Treasury Secretary Robert Rubin and former Deputy Treasury Secretary Roger Altman.[4]

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1) The views expressed here do not necessarily represent those of the staff, officers, or board of the Brookings Institution. I thank Roger Altman, Lily Batchelder, Molly Batchelder, Josh Bendor, Jared Bernstein, Jason Bordoff, Robert Cumby, Michael Deich, William Gale, Robert Greenstein, Rebecca Kahane, Jeffrey Kling, Meeghan Prunty, Robert Rubin, and Gene Sperling for helpful discussions, comments, and assistance.
2) Princeton economist Alan Blinder updated the term in a 1987 book entitled *Hard Heads, Soft Hearts: Tough Minded Economics for a Just Society*.
3) Indeed, cool heads are not possible without due attention to warm hearts. On the other hand, cool heads are still necessary for sound policy. Thus we should if anything be seeking "warm hearts but cool heads," not the other way around.
4) For more on The Hamilton Project, see www.hamiltonproject.org.

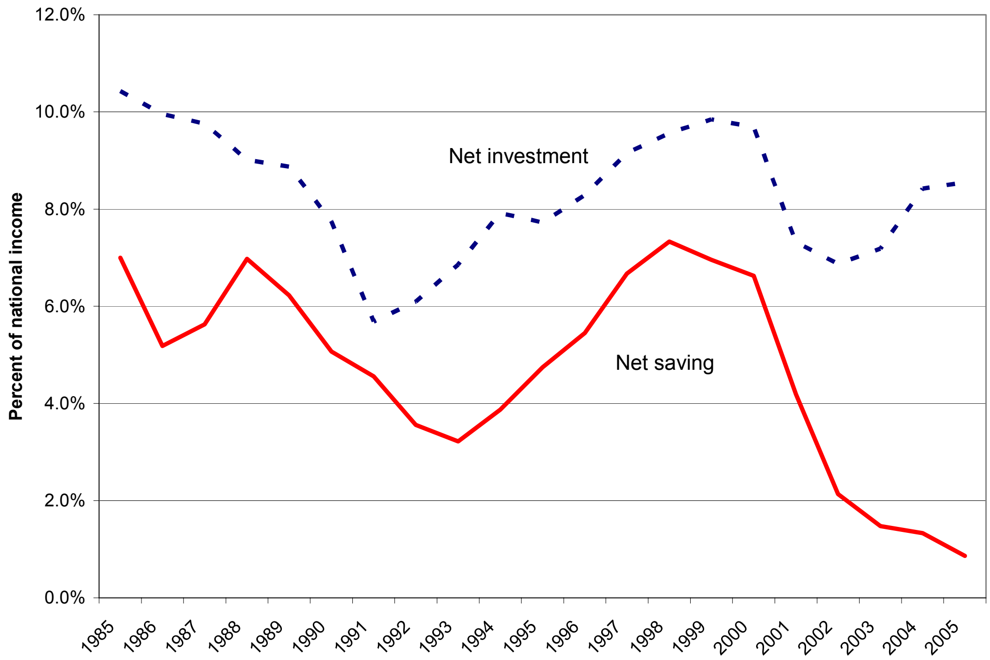
I. Background

The background for my remarks is provided through four simple charts about the United States economy. I focus on the U.S. economy both because of its continuing importance to the world economy and because of my greater familiarity with it, but many of the policy conclusions apply to other settings as well.

The first figure shows net national saving and net domestic investment – that is, saving and investment minus depreciation – as a share of national income over the past two decades. As the figure indicates, net domestic investment, after climbing steadily during the late 1990s and then declining sharply in 2001 and 2002, has now stabilized at approximately 8 percent of national income, roughly its level in the mid-1990s. This net domestic investment must be financed either by net national saving or borrowing from abroad. Over the past few years, it has increasingly been financed by borrowing from abroad, as net national saving has declined from more than 7 percent of income in 1998 to less than 1 percent in 2005. The increase in borrowing from abroad is reflected in the growing current account deficit, which has increased from under 2.5 percent of national income in 1998 to more than 7 percent in 2005.

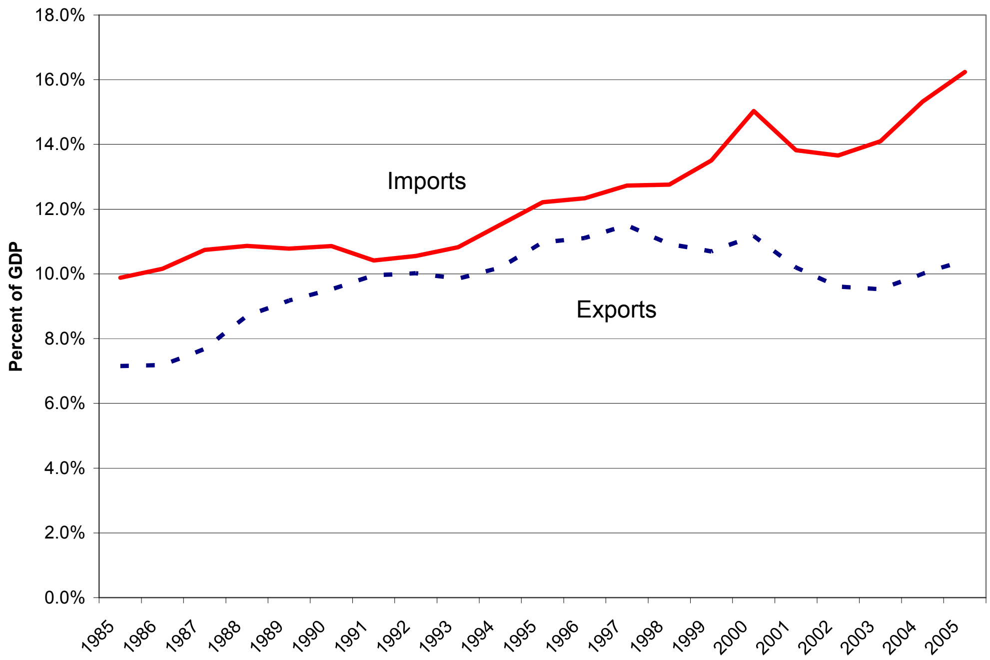
The second figure shows exports plus imports as a share of GDP over the past two decades. The sum of the two – which is commonly used as a measure of trade exposure – now amounts to more than 25 percent of GDP and has increased by roughly 10 percentage points of GDP over the past 20 years. In other words, the U.S. economy has become

Figure 1: Net national saving and investment



increasingly "open," in the sense that both exports and imports have risen over time relative to GDP.

Figure 2: Exports and imports



The third figure shows the pattern of growth in productivity and real median family income. Although the two series tracked each other closely between 1947 and 1973, they appear to have gotten a divorce since then. The primary reason is a substantial increase in wage inequality, with stunning increases especially at the very top of the wage distribution. According to data compiled by Emmanuel Saez and Thomas Piketty, the top 1 percent of wage earners accounted for 5.6 percent of total wages in 1975. By 2004, their share had risen to 11.2 percent. The top 0.1 percent – that is, one out of a thousand workers – accounted for 1.3 percent of aggregate wages in 1975 and 4.4 percent in 2004.[5)]

The final figure shows that over the past two decades, even as macroeconomic fluctuations in GDP and unemployment have declined relative to previous decades, the volatility of family incomes has grown markedly. As Jacob Hacker of Yale University has shown, the probability that an American family will experience a drop in family income of 20 percent or more in any two-year period has doubled from 12 percent in the early 1970s to 25 percent today (see Figure 4).

5) Table B2, http://elsa.berkeley.edu/~saez/TabFig2004prel.xls.

Figure 3: Productivity and family income

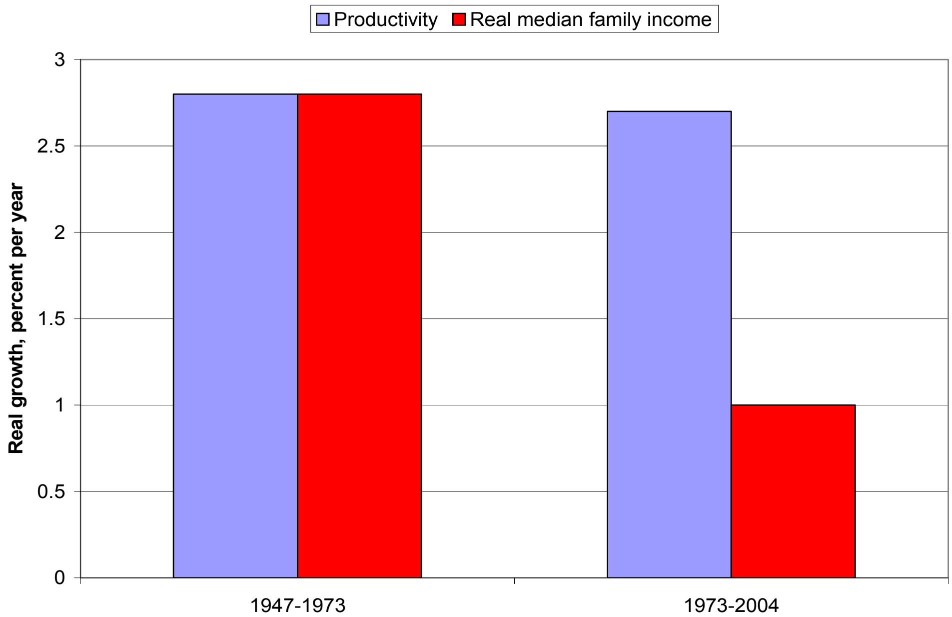
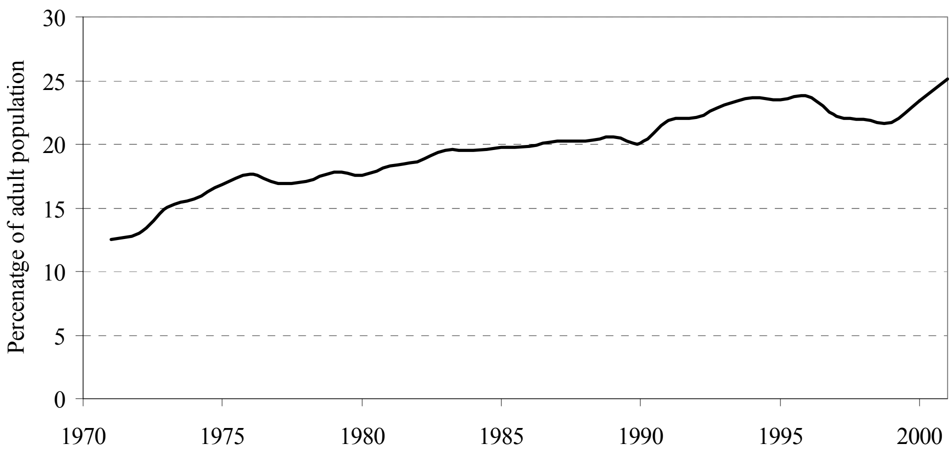


Figure 4: Predicted probability of family income decline of 20% or greater



Source: PSID, CNEF. Probabilities based on time trend, with other variables set at annual means.

These facts are not subject to much debate, but different people will clearly interpret their implications differently. So let me put forward my own interpretation of the implications:

Regardless of whether one believes the substantial U.S. current account deficit is sustainable, the nation's net national saving rate is too low and an increase would be desirable.

America's increased trade exposure brings substantial benefits, but it also imposes concentrated losses and provides an easy target for those concerned about job loss and economic insecurity.

Too many Americans are not sharing in the nation's overall prosperity. Over the medium and long term, for both economic and political economy reasons, growth that disproportionately favors a small segment of the population is likely to implode in one way or another.

American families are subject to increased levels of economic risk and income volatility, in part due to changes in the economy but also due to changes in policy. The resultant decline in economic security is not only harmful to families but also potentially harmful to overall economic growth.

These four forces interact with each other. The nation's low net national saving rate is the primary explanation for its current account deficit, which heightens popular concerns about "globalization" and increased trade exposure. International trade has generated substantial benefits for the country; estimates suggest that it creates annual benefits amounting to roughly $1 trillion. But increased trade exposure has also contributed, albeit only modestly according to most estimates, to income inequality. Stagnation of real median family income and increased inequality exacerbates anxieties associated with increased volatility of household income. And concerns about economic security, in turn, are heightened by fears that as other nations increase their productivity in sectors in which the U.S. had previously held a comparative advantage, the gains from trade may be diminished and the U.S. may experience a reduction in living standards compared to historical levels.

II. Principles of The Hamilton Project

The question then becomes what to do about all this. One approach, which is dominant in the United States today, is represented by what Jared Bernstein has called the YOYO approach – you're on your own.[6] YOYO economics emphasizes the paramount importance of individual incentives almost to the detriment of all else, while paying little attention to market failures, the reality of individual decision-making as highlighted by the growing field of behavioral economics, or even the fact that government sets the rules under which markets operate. Thus under the YOYO view of economics, the most auspicious way to boost private saving is to remove income and contribution limits on tax-preferred saving, the best way of boosting productivity is to cut taxes, and so on. Improving economic performance is simply a matter of "getting government out of the way."

6) Jared Bernstein, *All Together Now: Common Sense for a Fair Economy* (Economic Policy Institute: Washington, 2005).

In my view, YOYO economics is not only misleading and historically inaccurate. It is affirmatively damaging in view of the four forces I described earlier. The obsession with tax cuts has led to significant budget deficits that depress national saving and expand the current account deficit. And instead of a deep respect for market forces tempered by knowledge of their limitations, the assumption that unfettered markets always produce the best of all possible outcomes in all possible situations has meant that policy has not leaned against the wind of inequality and insecurity, for to do so under the YOYO view would mean increased distortions and less growth.

Some who oppose YOYO economics go to the other extreme, what I will call the sand-in-the-wheels approach. They favor turning inward and shutting out the forces of international competition, while trying to protect specific jobs. This approach is unfortunately just as unrealistic and unwise as YOYO economics. It is unrealistic given the substantial cross-border connections that already exist: more than 40 percent of U.S. trade occurs between U.S. firms and their foreign affiliates or between foreign firms and their U.S. subsidiaries.[7] Pervasive global supply chains raise significant questions about the practicality of turning inward. As Gene Sperling has emphasized, "however admirable it is to want to take every imaginable step to save existing U.S. jobs, when we impede the economic logic of producers seeking to meet consumer demands by finding the lowest-cost inputs, we are engaging in a losing game."[8] Furthermore, even if it were practical, turning inward would be ill-advised: It would forgo the substantial aggregate economic benefits that can be obtained from trade and risk tit-for-tat retaliatory steps.

Similarly, some believe that as the world economy becomes increasingly integrated and workers face competition from a growing number of workers in other countries, economic security is best promoted by protecting specific jobs in the domestic economy. My view is instead firmly in line with a recent white paper on the topic from the HM Treasury in Great Britain and the Ministry of Finance in Sweden: "The best way to manage the insecurities associated with globalization, and maximize the opportunities, is to provide security by equipping people to manage and take advantage of change, but not to protect specific jobs ."[9] In other words, the goal should be to provide workers with the tools to succeed in and navigate the risks associated with a globalized economy, rather than attempt to avoid those risks in an ultimately futile effort to insulate particular jobs from the rigors of competition. Thus economic security must be provided, but it must be provided in the form of skills and market-based social insurance schemes, not by attempting in vain to hold back the tide of competition through the protection of specific jobs.

The bottom line is that the most auspicious way forward rejects both the YOYO

7) http://www.census.gov/foreign-trade/Press-Release/2005pr/aip/related_party/rp05.pdf.

8) Gene Sperling, *The Pro-Growth Progressive,* page 12.

9) Swedish Ministry of Finance and HM Treasury, "Social bridges: Meeting the challenges of globalization," April 2006.

approach and the sand-in-the-wheels one. Instead, it seeks the combination of market competition and measures to bolster personal economic security in a "warm hearts and cool heads" approach. Workers exposed to fierce competition should be provided with the tools they need to navigate such a world, including adequate preparation (in the form of quality education and training programs) and targeted, pro-work assistance if economic difficulties arise. After families suffer a job loss or some other economic shock, the government can use market-friendly policies to help them get back on their feet. This perspective is embodied in the public philosophy being put forward by The Hamilton Project in the United States. Its three key principles are all consistent with the emphasis on warm hearts and cool heads, especially in light of the pressures being exerted by globalization.

Principle 1: Broad-based economic growth is stronger and more sustainable

The first principle is that economic growth will ultimately be stronger and more sustainable if all individuals have the opportunity to contribute to and benefit from it. When public policy excessively favors relatively few, growth suffers because the nation misses out on much of our people's potential for innovation and productivity. For example, without a quality public education, the middle-income child is less likely to become the highly productive worker of the future; without adequate access to capital, the potentially successful moderate-income businesswoman is less likely to get her business off the ground.

In political economy terms, excluding significant parts of the population from the fruits of economic growth also risks a backlash that can threaten prosperity. As former Federal Reserve Chairman Alan Greenspan recently put it, "[A]n increased concentration of income . . . is not the type of thing which a capitalist democratic society can really accept. . . ."[10] Both the economic and political effects underscore the benefits of broad-based growth, a notion supported by a variety of empirical evidence. As the World Bank recently concluded in a major study of the topic,

> "Because talent and ideas are widely distributed in the population, a prosperous modern society requires the mass of people to have incentives—and a state that can and will provide key complementary inputs and public goods. It therefore requires an underlying set of institutions that generate equality of opportunity for individuals and assure the accountability of politicians to all. . . . Growth certainly can occur in societies in which these conditions do not apply. But the preponderance of evidence suggests

10) Joint Economic Committee, *The Economic Outlook*, 109th Cong., 1st Sess., 2005. Between 1979 and 2002, for example, average after-tax income rose by 111 percent among the top 1 percent of the population but by only 15 percent in the middle fifth of the population. See Congressional Budget Office, *Effective Federal Tax Rates: 1979-2002* (Washington, D.C.: Congressional Budget Office, 2005), table 1C.

that such growth is unsustainable. This perspective is consistent with historical narratives, basic patterns in cross-country data, and more careful causal empirical work on the sources of prosperity."[11]

Principle 2: Economic security and economic growth can be mutually reinforcing

Economic growth can clearly increase economic security, but economic security can also increase economic growth. Many policymakers and analysts have been trained to believe that providing more security to families must come at the expense of economic performance and that these two goals are thus contradictory objectives.[12]

Especially over the long term, however, the traditional view misses three key points. First, a basic level of security frees people to take the risks—for example, starting a business, investing in their own education, or trying an unconventional career—that lead to economic growth.[13] With inadequate protection against downside risk, people tend to be overcautious, "fearing to venture out into the rapids where real achievement is possible," as Robert Shiller of Yale has argued. "Brilliant careers go untried because of the fear of economic setback."[14] Second, if hardship does occur, some degree of assistance can provide the resources to help a family thrive again. Families with access to some form of financial assistance, educational and training opportunities, and basic health care are less likely to be permanently harmed by the temporary setbacks that are an inevitable part of a dynamic economy. For families experiencing short-term difficulties, a safety net can thus

11) World Bank, *World Development Report 2006: Equity and Development* (Washington, DC.: World Bank, 2005), 124-5

12) As one leading textbook observes, "As the government insures individuals against being poor, it raises the incentive for individuals to be poor." Jonathan Gruber, *Public Finance and Public Policy* (New York: Worth Publishers), 463.

13) See, for example, Hans-Werner Sinn, "Social Insurance, Incentives, and Risk Taking" (Working Paper 5335, Cambridge, Mass.: National Bureau of Economic Research, 1995). Empirical evidence also suggests that generous personal bankruptcy laws are associated with higher levels of venture capital; that workers who are highly fearful of losing their jobs invest less in their jobs and job skills than those who are more secure; and that investment in education and job skills is higher when workers have key risk protections. See John Armour and Douglas Cumming. "The Legal Road to Replicating Silicon Valley" (Working Paper 281, Cambridge, UK: Centre for Business Research, University of Cambridge, 2004); Lars Osber, "Economics of Insecurity" (Discussion Paper 88, Sydney: Social Policy Research Centre University of New South Wales, 1998); Margarita Esteves-Abe, Torben Iverson, and David Soskice, "Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State" (paper prepared for the 95th American Political Science Association Meeting, Atlanta, September 2-5, 1999); and Sauro Mocetti, "Social Protection and Human Capital: Test of a Hypothesis" (Working Paper 425, Siena, Italy: Department of Economics, University of Siena, 2004)

14) Robert Shiller, *The New Financial Order: Risk in the 21st Century* (Princeton, NJ.: Princeton University Press, 2003), 8. Senator Barack Obama has made a similar point, arguing that "these safety nets are exactly what encourage each of us to be risk-takers and entrepreneurs who are free to pursue our individual ambitions⋯We take a chance on start-ups and small businesses because we know that if they fail, there are protections available to cushion our fall. Corporations across America have limited liability for this very reason. Families should too- and that's why we need social insurance" (Barack Obama, "A Hope to Fulfill" [remarks prepared for luncheon at the National Press Club, Washington, D.C., April 26, 2005]).

be a springboard to a better future. Finally, a basic level of economic security can lessen political demands for protectionism and other growth-diminishing policies. The benefits of new technology and competition tend to be spread widely across the economy, but are often highly disruptive to a certain industry or set of jobs. Individuals in the affected sectors may naturally resist the adverse effects on their own jobs associated with such overall progress. In this context, providing a basic level of economic security can ease transitions and help to avoid policy responses that may hamper overall economic growth.

To be sure, providing too much security can harm economic growth by excessively blunting incentives to work, innovate, and invest, and some developed nations have gotten the balance wrong in this way. But any such adverse effects on growth can be as much a matter of how economic security is provided—and in particular whether policy design pays careful attention to incentives—as how much security is provided. Furthermore, insufficient economic security also harms growth, and thus even from the perspective of economic growth alone, providing a core level of security is beneficial. Policymakers must thus seek the right balance, recognizing that both the form and amount of economic security can affect economic growth and individual well-being.

Principle 3: Effective government can enhance economic growth

Markets are the cornerstone of economic growth. Yet market forces, while potent, will not by themselves generate adequate investments in education and training. Neither will markets generate sufficient investments in science and infrastructure—such as the type of government-funded "blue sky" research with no immediately apparent commercial viability that led to the Internet's creation—which are crucial to economic growth. To achieve strong, sustained, and broad-based economic growth, market forces must be supported and supplemented by an effective public role. For example, government must ensure that the rules of the game are fair, transparent, and binding for all parties. The YOYO notion that strong growth over the long term is possible simply by "getting government out of the way" is fundamentally misguided, since sound government policy is essential to maximizing long-term growth.

III. Policy responses

With these principles in mind, what specifically can be done to increase broad-based economic growth? Allow me just to provide a few selective examples in three areas: saving, social insurance, and tax reform. Together they and other similar proposals would be much more effective at promoting long-term growth than continued tax cuts.

Increase national saving

First, higher national saving would reduce the current account deficit, raise future economic growth, and increase future living standards. Since national saving is the sum of public saving and private saving, the key to raising it is to reduce public dis-saving and to increase private saving, and the effect of policies aimed at reducing public dis-saving is admittedly likely to be larger than the effect of policies aimed at raising private saving. But since reducing budget deficits involves politically painful steps like tax increases and spending cuts, policy-makers often focus instead on ways to increase private saving.

Higher private saving could be accomplished through two policy shifts: making it easier for middle- and lower-income households to save and increasing their incentives to do so.[15] A recent proposal from The Hamilton Project argues that families don't have time to focus on saving decisions, and tax incentives to save for many middle- and low-income households are weak.[16] The proposal would provide new tools to address both issues. To make it easier to save, the proposal would require every firm (with potential exceptions for the smallest businesses) to automatically enroll their new workers in a traditional defined benefit plan, a 401(k), or an IRA. Workers would always have the ability to opt out of these savings vehicles. New Zealand has already adopted this type of approach through its Kiwi Save program, and the UK has embraced the same approach in its most recent government white paper.[17]

Our proposal would also replace the existing "upside down" set of tax incentives for retirement saving, which mostly subsidize asset shifting by higher-income households rather than new saving by middle- and lower-income households, with a simple 30 percent match for everyone.[18] The result would be a stronger incentive to save for 80 percent of households.[19] New randomized evidence also suggests that transforming the incentive from a *credit* (that is, money returned to the tax filer in the form of a reduction in tax liability or a refund) into a *match* (that is, money deposited directly into the retirement account) would be more effective at inducing retirement contributions.

While I'm on the topic of private saving, let me contrast the proposal I just described with the YOYO approach to the problem, since I think the comparison is illuminating. Rather than bolstering saving among middle- and lower-earners, the YOYO approach

15) For more information, see www.retirementsecurityproject.org.
16) William Gale, Jonathan Gruber, and Peter Orszag, "Improving Opportunities and Incentives for Saving by Middle- and Low-Income Households" (White Paper 2006-02), Washington, D.C.: The Hamilton Project, 2006).
17) See J. Mark Iwry, "Automating Saving: Making Retirement Saving Easier in the United States, the United Kingdom and New Zealand," Retirement Security Project Policy Brief 2006-2, June 2006.
18) This basic idea has also been championed by Gene Sperling, among others.
19) William Gale, Jonathan Gruber, and Peter Orszag, "Improving Opportunities and Incentives for Saving by Middle- and Low-Income Households" (White Paper 2006-02), Washington, D.C.: The Hamilton Project, 2006).

instead focuses on increasing income and contribution limits to tax-preferred accounts. For example, one common proposal would increase the maximum amount that can be saved on a tax-preferred basis, such as by raising the amount that can be contributed to an IRA or 401(k). Yet less than 10 percent of 401(k) participants make the maximum contribution allowed by law, and only about five percent of those eligible to contribute to IRAs make the maximum contribution. Increasing the maximum contribution amounts would thus be unlikely to have much effect on the vast majority of families and individuals, since they are not currently making the maximum allowable contribution. Instead, raising the contribution limits would largely provide windfall gains to households already making the maximum contributions to tax-preferred accounts *and* saving more on top of those contributions in other accounts. Furthermore, most of the response to increasing the contribution limits is likely to be shifting of assets from other accounts. The expanded tax preference thus would mostly translate into subsidizing saving that would have occurred anyway, rather than encouraging new saving. Furthermore, if the expanded tax preferences are deficit-financed, the net result may well be a reduction in national saving rather than an increase. The result improves neither economic performance nor equity.

Economic security and social insurance

Another critical topic involves social insurance programs. Proponents of YOYO economics would significantly weaken these programs, shifting yet more risk onto families despite the significant increase in income volatility shown in Figure 4. Instead, the warm heart and cool head approach is to update social insurance programs to provide better protection against the most important risks while also paying careful attention to individual incentives.

As just one example, the risks associated with job dislocation are increasingly salient as the world economy becomes more integrated. Jeffrey Kling of Brookings has developed a revenue-neutral proposal to fundamentally restructure the system of social insurance after job loss to improve the protection against long-term effects of involuntary unemployment, to provide a more progressive allocation of benefits, and to encourage work. As part of this reform, the government would create a program of wage-loss insurance for reemployed workers, which would augment the hourly wages of individuals who take jobs that pay a lower wage than their previous jobs. In order to encourage return to work and to shift assistance towards those taking new jobs at lower wages, traditional unemployment insurance payments would be replaced by a saving and borrowing facility for those experiencing unemployment spells. An alternative unemployment insurance proposal is being developed by Lori Kletzer of the University of California at Santa Cruz and Howard Rosen of the Institute for International Economics.

Tax reform

Progressive taxation can play an important role in attenuating after-tax income inequality and thereby promoting broad-based growth. Robert Shiller of Yale University and Len Burman of the Urban Institute are developing a proposal to index the tax system for inequality—meaning that tax rates would be calculated, at least in part, in order to achieve a pre-determined after-tax distribution of income. Adjusting the tax code in this way, the authors argue, would mean that low- and middle-income Americans would share in the benefits of growth-enhancing policies.

Another proposal was developed by Lily Batchelder of NYU, Fred Goldberg of Skadden Arps, and myself.[20] It argues that the roughly $500 billion a year in tax incentives devoted to subsidizing socially beneficial activities (such as retirement saving, health care, education, and home ownership) should be dramatically overhauled. We argue that in the absence of evidence that high-income households are more responsive to the incentives or generate larger social benefits than low-income households, the subsidies should be delivered in the form of uniform, refundable credits, so that they do not vary by income – which would be both more efficient and more equitable than the current system. The efficiency benefits of uniform refundable credits are further magnified by their tendency to smooth household income and macroeconomic demand. The burden of proof should be on those who want to deviate from this uniform subsidy approach, to prove that a regressive approach is more efficient.

A final topic involves corporate taxation. As the world economy becomes increasingly integrated, the existing system of corporate taxation across the globe is coming under increasing pressure. Transfer pricing disputes abound. In my view, it is time to consider moving to a formulary apportionment system internationally, under which a company's global profits would be taxed at the national level based on perhaps a single factor, such as the share of the firm's total worldwide sales occurring in that country. The Hamilton Project is exploring this and other ideas to maintain some form of corporate taxation in a world with extremely mobile capital across national boundaries.

IV. Conclusion

These are just a few of the ideas that are both warm-hearted and cool-headed that we are exploring through the Hamilton Project and other related efforts. While I am on the topic of cool-headedness, I'd like to make one point regarding the nature of evidence used to formulate policy. Too much of the economic research cited in policy circles is neither randomized nor behavioral. As a result, it is unable to distinguish convincingly between

20) Lily L. Batchelder, Fred T. Goldberg, Jr., and Peter R. Orszag, "Efficiency and Tax Incentives: The Case for Refundable Tax Credits," 59 *Stanford Law Review* (forthcoming).

correlation and causation and is potentially misleading because it often doesn't even attempt to capture behavioral influences.

Much more emphasis must be placed on randomization, which allows a simple, clean, and highly credible comparison between the effect of a policy innovation and what would have happened if that innovation had not been introduced, and also insights from the emerging field of behavioral economics, which examines the potential importance of policy levers that a neoclassical economic approach would overlook. If we really want to learn what works and what doesn't, governments, academics, foundations, international organizations, and others should be investing substantially more in randomized, behavioral studies. The Poverty Action Lab at MIT is doing path-breaking work in this area in developing countries.[21] More effort is also required in developed countries.

Thank you once again for inviting me here today. President Teddy Roosevelt once remarked, "Softness of heart is an admirable quality, but when it extends its area until it also becomes softness of head, its results are anything but admirable. It is a good thing to combine a warm heart with a cool head."[22] I hope that conferences like this one can help to move economic policy-making toward such a combination.

21) http://www.povertyactionlab.org/

22) Theodore Roosevelt, "Promise and Performance," The Strenuous Life, Published in the "Outlook," July 28, 1900, available at: http://www.bartleby.com/58/9.html.

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Keynote Speech

Global Income Disparities

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Global disparity in income is a difficult subject to cover in 15 minutes, and I'm sure I will not be able to do it adequately. But I will make an effort. I start with some basic facts, which themselves suggest that this is a complex subject. I will then raise some questions about the relevance of these facts, focusing attention on poverty and on legitimacy. Finally, I will conclude with some interpretive remarks, on terrorism, where the role of income disparities has in my judgment been exaggerated, and on international migration, where income disparities play an important role.

Many people want simple statistics, not too much information to digest. The simple statistics in the case of income distribution is called the Gini coefficient, after its Italian inventor. It tries to capture in a single number the distribution of income in any country or region, and ranges between zero (perfect equality) and one (extreme inequality, one party having all the income). Thanks to the important work of the Indian economist Surjit Bhalla, we now have Gini coefficients, or at least crude approximations of them, for the world as a whole for each ten years since 1960. They suggest that world inequality of income increased during the period 1960-1980, as Europe and Japan-richer-than-average countries-grew rapidly and reduced the income gap with the rich United States, but of course increased the gap between them and poorer countries. Then world income inequality declined in the next two decades, as China and India, the two largest poor countries, grew more rapidly then average, and reduced the income gap between the poor (not all the poor, but lots of them) and the rich. By the end of the century, Bhalla's Gini coefficient showed world distribution of income as more equal than it was in 1960.

But a single number buries a lot of interesting information, highly relevant to questions in which we may be interested. Was the reduction in income distribution even, or was it skewed in some way? Even casual knowledge of world development suggests what the figures show in greater detail. During the past half century, the income of the median world citizen- fifty percent above, fifty percent below-increased relative to the income of the top ten percent (90^{th} percentile), but it also increased relative to the bottom twenty percent (20th percentile). In short, in some respects income disparities have narrowed, but in other respects, focusing on the very poor, they have grown. This pattern should surprise no one. While “a rising tide raises all boats” is a nice metaphor, human affairs rarely proceed smoothly and in unison. Some countries are better prepared for economic growth than others (e.g. because of an early emphasis on widespread education), and some countries take advantage of opportunities earlier and more successfully than others. Thus we have, in each generation, innovators and imitators, leaders and followers, advancers and those in a catch-up position-and those who do no t progress at all. Thus world disparities in income, when looked at closely, can be widening and narrowing at the same time, depending on which part of the distribution is under inspection.

There is another issue that clouds discussion of disparities: the difference between arithmetic growth and geometric growth. A ten percent rise in a $1000 income is $100; a two percent rise in a $10.000 income is $200. The arithmetic gap between two such countries is widening. But in the long run geometric relations dominate, and in geometric terms the poorer country is closing the gap from the outset. Without clarity on the exact nature of the measurements, two persons can appear to disagree in their description of the same underlying facts.

Often associated with income disparities, but in fact quite different, is poverty. In a sense, the whole point of economic development from a human point of view is to reduce poverty-to create the conditions where individuals can make real choices about the their lives, rather than having to worry perpetually about where the next meal is coming from. Comparison of poverty across countries, or even within countries over time, is fraught with both conceptual and practical difficulties. But the discussion was more sharply focused when the World Bank in 1990 defined extreme poverty as $1 a day in purchasing power dollars of 1985. Surjit Bhalla has also made calculations of the relative and absolute changes in poverty on an updated variant of the World Bank definition, $1.50 a day in purchasing power parity of 1993. His results are nothing short of astounding: poverty fell from 63 percent of the population of the developing world (on the 1993 definition, i.e. excluding 24 OECD countries) in 1950 to 43 percent in 1980 to 13 percent in 2000. Note the acceleration of decline in the recent period, the period of so-called globalization, and the period in which first China and then India accelerated their growth.

Of course, world population has also grown over this half century, from 2.5 billion people to 6.1 billion people. Despite that growth in population, concentrated in poor countries, the headcount of persons living in extreme poverty has been cut in half, from 1.2 billion to 647 million. Extreme poverty as a share of the population has fallen everywhere, most notable in East Asia; the number of persons living in extreme povery has also fallen in most regions of the world. Sub-Saharan Africa marks the major exception, where population growth has been exceptionally rapid (signifying improvements in nutrition and health) but economic growth has been slow; there the number of people in poverty has increased by 260 million since 1950. The details of Bhalla's calculations are subject to professional debate, but the broad trends her describes are hardly in doubt.

As we have seen, changes in disparities in world income are complex, and have shown different patterns at different points in the distribution. Statements to the effect that the richest 20 countries of the world are now much richer than the 20 poorest countries than several decades ago are deeply misleading, since both groups of countries have changed. Tiny Botswana and huge China were among the world's four poorest countries in 1950; both have grown enormously, and are now far from the bottom. Other countries, such as Cuba, Haiti, and Afghanistan, have slipped backward.

Should we be concerned about the pattern that has emerged? As one level, the answer is surely yes; remaining poverty, more likely to be found in countries that remain poor, represents unfinished business, and should eventually be eliminated, as implied by the Millennium Goals. There represent a challenge above all to the poor countries, which must create the conditions necessary for economic growth and for the reduction in poverty. The international community under current legal and political arrangements cannot create or impose these conditions, which depend above all on domestic social stability, the appropriate domestic policies creating incentives for effort, saving and risk taking, and engagement with the world economy. But the international community in various ways can both maintain an environment in which economic growth of poor countries can occur, and can facilitate the required domestic changes by proving encouragement and incentives.

The international disparities themselves are not likely to be a source of major disturbance. Most really poor people are more concerned about their local conditions and opportunities, and about the legitimacy of the increased wealth of neighbors and compatriots, than they are about wealth in distant lands. Where the wealth is viewed as having been acquired illegitimately, e.g. through political influence or bribery, local unrest-itself a deterrent to growth, by shortening horizons-is likely to result. But these are local effects, not international ones.

It is sometimes suggested that the increase in international terrorism can be attributed, at least in part, to growing disparities in income worldwide. Motivations are no doubt complex and it is difficult to rule anything out definitively, but as a general proposition this is highly unlikely. Many of the leading terrorists have come from middle-income or even wealthy families, not from the poorest. They are obvious disaffected from the current condition of the world in some ways, but the continuing presence of poverty amidst growing wealth can only be one of a long list of source of disaffection. Recruits, too, have been drawn not from the extremely poor, but from manly young men who see few prospects in life and who have been persuaded (at least in the case of religiously educated Moslem terrorists) that an attractive afterlife awaits their martyrdom.

One respect in which international disparities in income may have direct consequence is migration from poor to rich countries in search of job opportunities and higher incomes, some of which can be remitted back to families. The United Nations has estimated that just 0.2 percent of the world's population migrated annually in the late 1990s and that under three percent of the world's population lives outside their country of birth. Twelve percent of residents of the United States were born outside the United States; the share is higher for Australia and Canada, lower but still significant for several European countries, much lower for Japan and Korea. Demographic decline in many rich countries will make immigrants more attractive, at least to business firms. Growing prosperity in poor countries, combined with communities of compatriots abroad who can provide advice and assistance and cultural familiarity, will stimulate the flow of emigrants from poor countries. Thus we can expect to see much larger migration in the future-perhaps not comparable, in relative terms, to the great migrations from Europe to North and South America and to Australia at the turn of the last century, but large relative to post-1914 experience. This migration will diminish as resistance grows in the receiving countries, but also as prosperity in the sending countries increases to the point at which decent living can be made without migrating to other countries and cultures.

To sum up: the relative movement of incomes in the world economy is complex, and has changed over time. But, during the past half century has been greatly reduced and income disparities, on average, seem to have diminished as economic growth and development have proceeded, although some countries have been left behind and have yet to implement the prescriptions for economic growth, which are well known. Income disparities need not in general be of global concern-although they may be of great concern locally, particularly, of wealth is regarded as having been acquired through illegitimate means. But the presence of such disparities, combined with demographic developments, will increase the flow of international migration.

Session 1: Socio-Economic Disparity in APEC and the World (Scope, Current Situation and Trends)

Presentations

Raymond Torres, Head, Employment Analysis and Policy Division, OECD
James W. Dean, Professor Emeritus, Simon Fraser University, Canada
Hsiao-hung Nancy Chen, Professor, National Chengchi University,
Chinese Taipei / APEC SSN CBN

Globalisation and Socio-Economic Disparities

Raymond Torres
Head, Employment Analysis and Policy Division, OECD[1]

Introduction

Many things have been said about globalisation – a process characterised about the rapid economic integration among a growing number of countries. Some regard this phenomenon as a major engine of economic prosperity, while others worry about its social consequences. More recently, it seems that these different positions have converged somewhat. Indeed there is growing recognition that open markets are a factor behind economic growth, but that at the same time economies need to adjust to take advantage of the benefits of globalisation. And this adjustment is neither automatic nor painless. In other words, there may be losers as well as winners from globalisation, and there is a role for policies to ensure that the process is as smooth and efficient as possible.

The purpose of this paper is to i) describe trends in socio-economic disparities recorded over the past couple of decades, ii) discuss the extent to which these trends are related to trade and investment liberalisation and iii) examine policy issues arising from these findings. Before that, key trends in globalisation are described.

Growing international economic integration

The process of globalisation has gathered considerable pace over the past few decades. OECD economies have become significantly more open to trade, with the size of trade flows relative to GDP ("trade openness") having more than doubled in many countries (Chart). Data on the scale of foreign direct investment (FDI) relative to GDP also indicate an even stronger trend toward increasing international economic integration, although internationally comparable measures of "FDI openness" can only be calculated for a shorter historical period and for fewer countries (Chart). Estimates for the world as a whole suggest that the stock of FDI represents over one fifth of GDP, compared with 5% in 1980 and still slightly over 8% in 1990.

An important new development is the growing international integration of developing

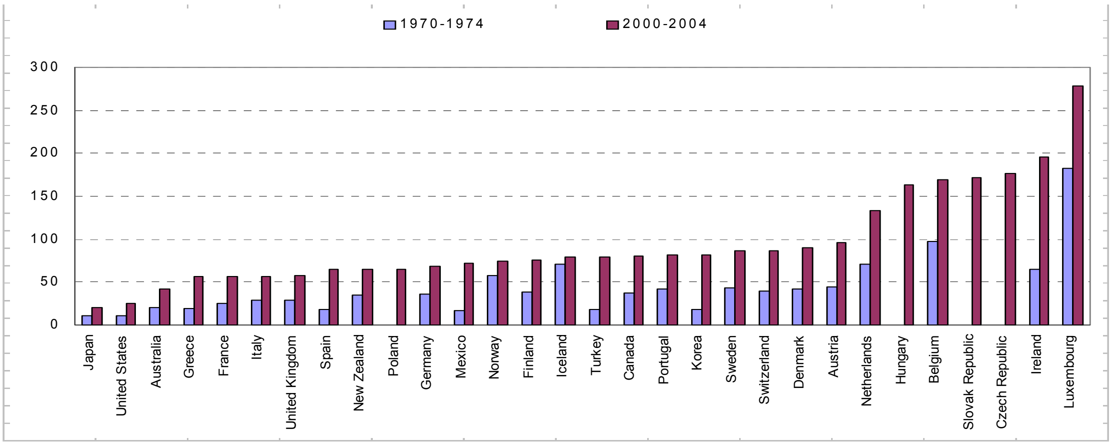
1) This paper is based on analysis conducted for the 2005 and 2006 issues of the OECD *Employment Outlook*. However, the views conveyed in the paper do not necessarily reflect those of OECD or its member countries.

countries. In particular, in 2004, China represented 6.7% of world exports, spectacularly up from 1.2% in the early 1980s and 2.5% in the early 1990s.

The nature of international economic integration is also changing. Increasingly, trade and FDI are the counterpart of "outsourcing". For instance, Feenstra and Hanson (2003) show that, in 2002, US manufacturing imported more than 22% of its intermediate inputs, almost twice as much as in the early 1990s. Undoubtedly, new technology makes it possible to fragment the production process and facilitates international outsourcing.

Although the trend increase in openness to trade and FDI has been universal in the OECD region, large cross-country differences characterise both the levels and rates of increase of these two summary indices of openness. Some of the differences in the relative

Chart 1. Growing trade flows as a percent of GDP in OECD countries
Sum of expots and imports as a percent of GDP



Source: OECD.

Chart 2. Stock of FDI (% in GDP)

Region/economy	Y1980	Y1990	Y2000	Y2004
World	**5.0**	**8.4**	**18.3**	**21.7**
Developed countries and territories	**4.9**	**8.2**	**16.3**	**20.5**
Europe	**6.4**	**10.8**	**26.5**	**32.0**
European Union	**6.3**	**10.7**	**26.4**	**31.7**
France	3.9	7.1	19.9	26.5
Germany	3.9	6.6	14.5	12.9
Ireland	189.4	88.9	134.1	126.3
Portugal	12.3	14.8	27.0	39.0
Spain	2.3	12.8	27.6	34.9
United Kingdom	11.8	20.6	30.5	36.3
North America	**4.5**	**8.0**	**14.0**	**14.0**
Canada	20.4	19.6	29.8	30.5
United States	3.0	6.9	12.9	12.6
Other developed countries	**1.7**	**2.8**	**4.0**	**7.9**
Australia	7.9	23.7	28.6	41.1
Japan	0.3	0.3	1.1	2.1
New Zealand	10.3	18.2	54.3	51.5
Developing countries and territories	**5.4**	**9.8**	**26.2**	**26.4**
Africa	**10.2**	**12.7**	**26.5**	**27.8**
Latin America and the Caribbean	**5.1**	**10.5**	**24.7**	**34.1**
Asia and Oceania	**4.0**	**8.7**	**26.9**	**23.2**
China	0.5	5.8	17.9	14.9
Korea, Republic of	2.1	2.1	8.1	8.1
Taiwan Province of China	5.8	6.1	5.7	12.8
India	0.2	0.5	3.7	5.9
Singapore	52.9	83.1	123.1	150.2
Thailand	3.0	9.7	24.4	29.7
South-East Europe and the Commonwealth of Independent States (CIS)	**..**	**0.2**	**15.8**	**21.5**

Source: OECD.

economic weight of trade and FDI in different countries reflect geography (*i.e.* trade flows tend to be higher relative to GDP in small countries or those close to their main trading partners), but different policy stances also play an important role (Nicoletti *et al.*, 2003).

Socio-economic disparities: are they growing?

Earnings inequality has increased but trends in household income inequality are more mixed

In general, a trend towards more unequal earnings distribution has been recorded in most OECD countries over the past two decades. Earnings inequality (measured at the

Chart 3. Growing earnings inequalities

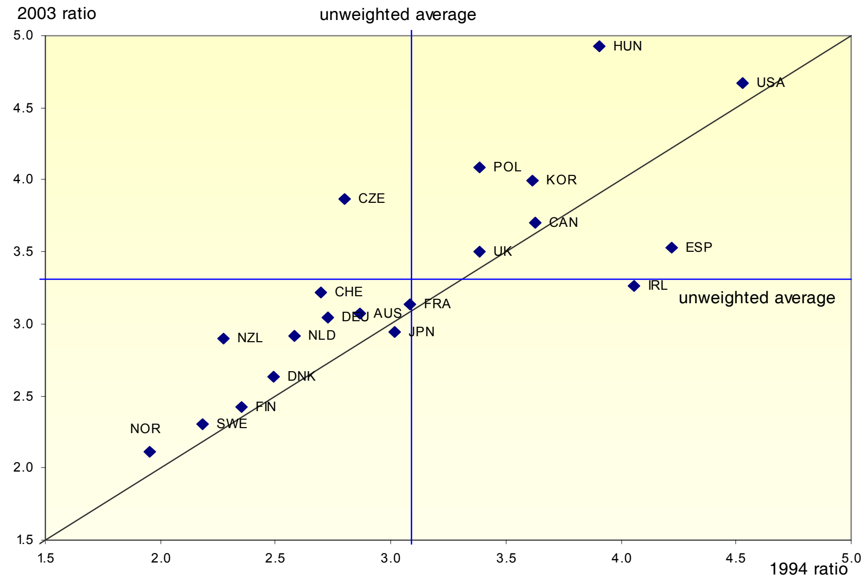
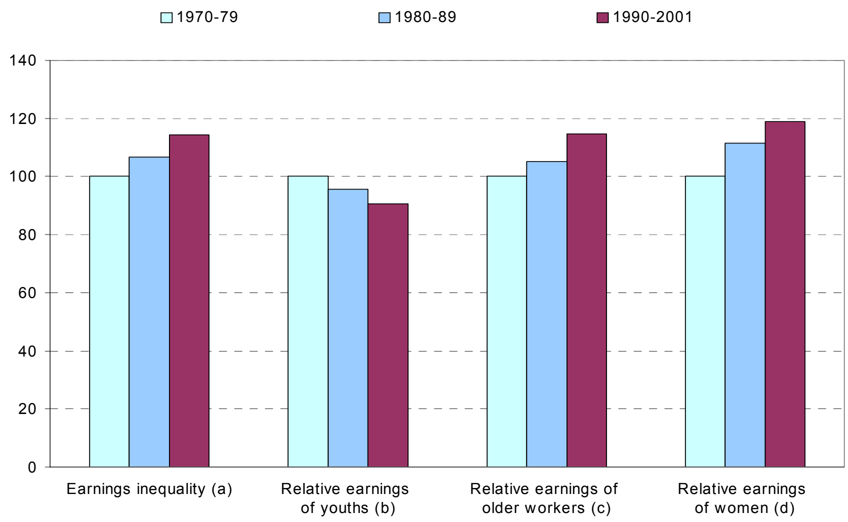


Chart 4. Trends in wage dispersion (1970-79 = 100)



ratio of the 9th to the 1st decile of earnings for full-time workers) has increased in practically all OECD countries. Rising earnings inequality was especially pronounced in Central and Eastern European countries, followed by New Zealand, Switzerland and Korea. That said, the level of earnings inequality is different across countries, being larger in the US and lowest in Nordic countries.

On the other hand, the trends in terms of household income inequality are more mixed:

- For a number of OECD countries, the trend increase in household income inequality came to a halt or even reversed in the 1990s. Indeed, of the nine countries that experienced increases of inequality in the period before the mid-1990s, only Japan and the United Kingdom continued to see a widening of the income distribution. In a few countries where the income distribution had remained stable or become more compressed before 1993-94, there was a tendency for some widening in income dispersion thereafter. This was particularly the case for most of the Nordic countries and Canada. However, in a majority of countries, the income distribution narrowed or was stable after the mid-1990s, either in line or in contrast with previous trends. That said, the degree of income inequality differs significantly across OECD countries (Figure). For example, as measured by the Gini coefficient, income inequality at the household level was more than twice as high in the United States, Turkey and Mexico as in Denmark in 2000. Overall, inequality was lower in the northern European countries and higher in the southern European and English-speaking countries. Similar patterns were observed for relative poverty in 2000, with 17% of the population living under the poverty threshold (set at 50% of the median income) in the United States against 4% in Sweden. These patterns hold across alternative indicators of relative poverty and inequality.
- Trends in the incidence of relative poverty were also more mixed after the mid-1990s, with the number of countries where relative poverty rates increased being almost equal to those where they declined or remained constant. The decline in relative poverty rates in most of the Nordic countries, Canada, Luxembourg and Spain during the decade prior to mid-1990s reversed during the past decade. By contrast, among the ten countries where relative poverty rates had increased prior to the mid-1990s, poverty rates stabilised or decreased in eight of them and increased further in Ireland and Japan after 1994.
- Poverty is a heterogeneous phenomenon. Children and old-age pensioners (aged above 65) face a higher risk of poverty incidence (as measured by the at-least-once poverty rate) and, even more, persistence (as measured by the long-run poverty rate) than the whole population. Both poverty incidence and persistence decline

substantially during the working age and start rising again with retirement, noticeably earlier in Europe, especially as concerns long-run poverty, than in the United States. Poverty incidence, but not persistence, increases also at age 15-24 during the transition from school to work. Finally, in most countries, the risk of poverty incidence and persistence is higher for lone parents – especially women with children – and less educated individuals.

Chart 5. Relative participation rates for low-educated workers

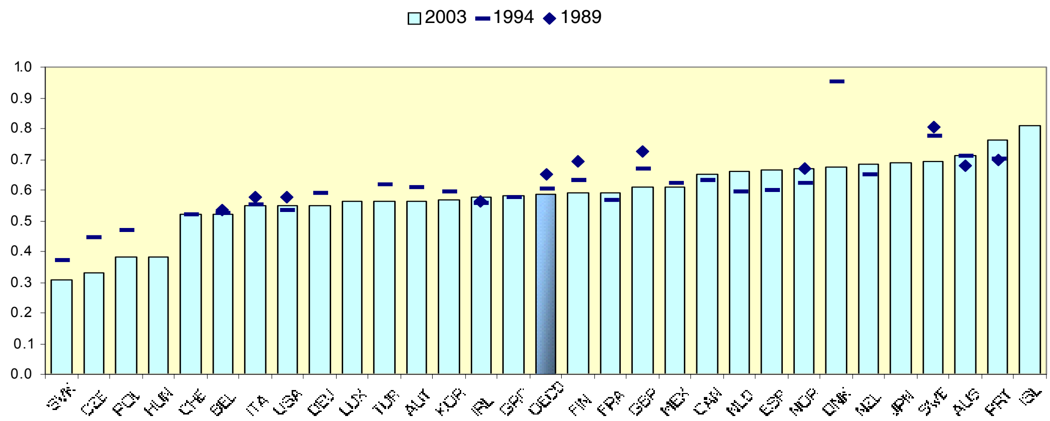
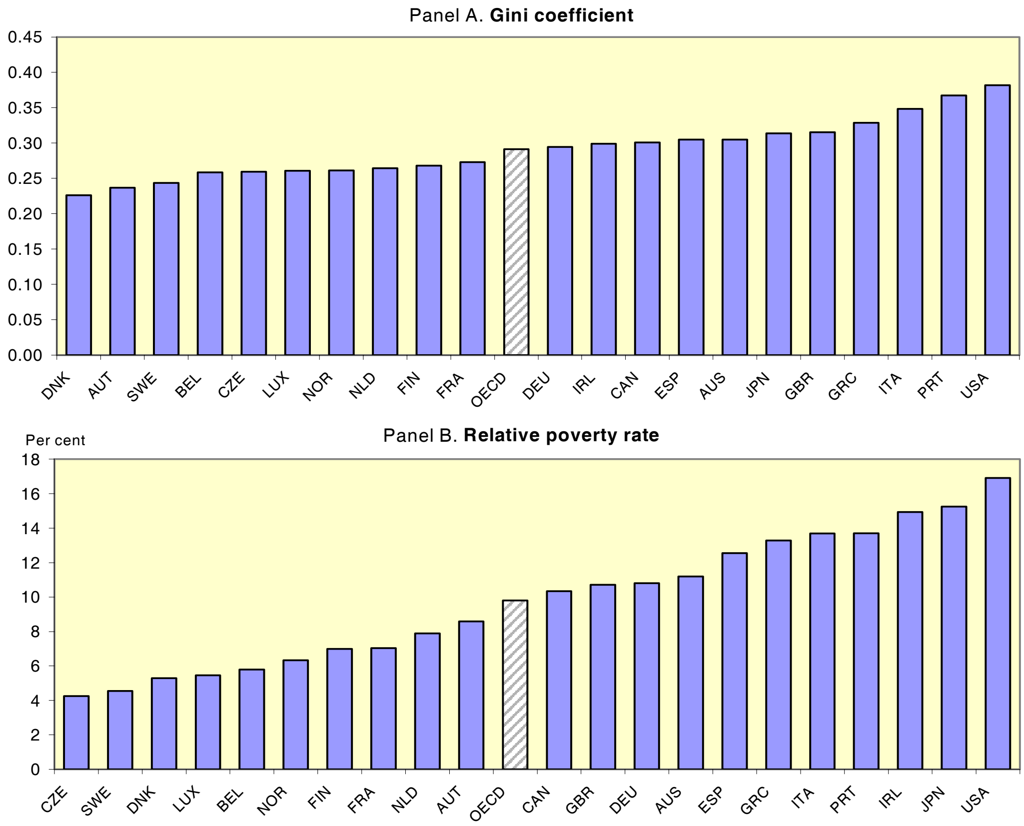


Chart 6. Indicators of income inequality and poverty, 2001



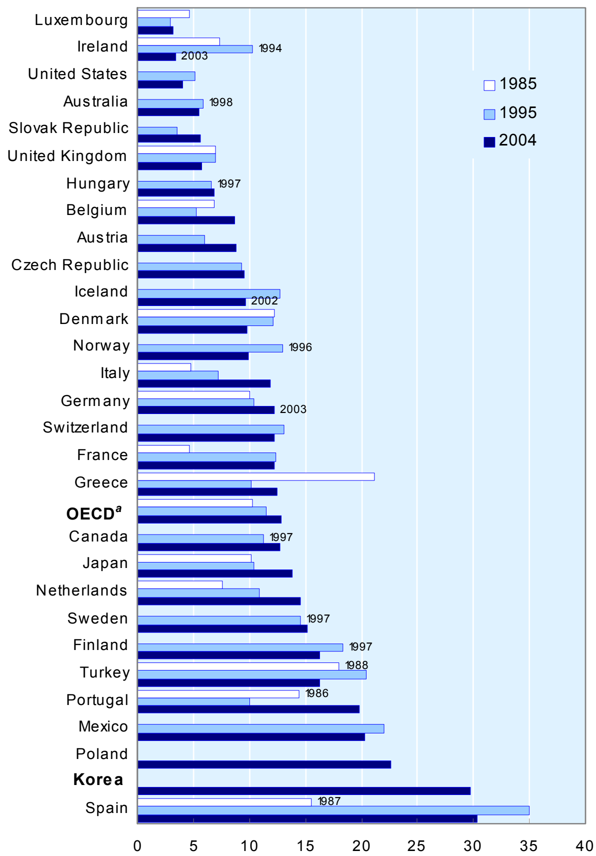
The incidence of temporary work and non-regular employment is on the rise in many countries

There is also concern that certain workers may be trapped in precarious forms of employment or low-paid jobs, thus facing a high risk of moving back to non-employment.

Temporary employment has grown in a considerable number of countries in the past two decades and this expansion has raised concerns that temporary jobs may be an additional source of insecurity and precariousness for workers. To a certain extent, the growth in temporary jobs reflects the strictness of the employment protection legislation (EPL) on regular contracts, and for instance in the United States, where EPL is low, the distinction between temporary and permanent contracts is not very relevant. Hence, a relatively low share of temporary jobs can coincide with a relatively high job rotation, as for example in Ireland and the United Kingdom. Temporary jobs may also have beneficial effects. First, by increasing employment flexibility, they are probably raising employment levels. There is also some evidence that temporary employment (in particular through

Chart 7. Incidence of temporary employment in OECD countries

Percentages



Non-weighted average of countries and years shown.

Source: OECD Temporary Work database; and Supplement to the EAPS in Korea, August 2005.

temporary agencies) improves the matching of job seekers to job vacancies, thus contributing to a reduction in frictional unemployment. Second, temporary jobs may offer a foothold in the labour market and serve as a first step towards permanent positions.

However, temporary jobs could also trap certain workers in situations of employment instability and earnings insecurity, as suggested by the fact that temporary jobs are most often not the outcome of a personal choice. As evidenced in OECD (2002, Chapter 3), temporary jobs tend to provide less favourable conditions than permanent ones. Controlling for differences in individual and job characteristics, the wage penalty for temporary workers is found to be significant, ranging from 6% in Denmark to 24% in the Netherlands, and averaging about 15% in a number of EU countries. Access to non-wage benefits, which represent an (increasingly) important part of job quality, also tends to be lower than for workers under permanent contracts. This is particularly the case in countries where fringe benefits are not provided by employers on a universal basis, such as Australia, Canada and the United States. In most other countries, temporary workers are in principle eligible to the same benefits as permanent workers, but access is sometimes *de facto* limited by eligibility criteria such as minimum contribution periods. In most countries, job stability also tends to be lower than for workers on permanent contracts.

A relatively large proportion of workers on temporary jobs risk losing their job

Overall, a considerable share of temporary workers moves into permanent employment (OECD, 2006).[2] Not all mobility out of temporary employment is into permanent employment, however. Indeed a number of workers move instead to unemployment or inactivity. In fact, in all countries for which data exist, there is evidence that workers on temporary jobs are much more likely to move to non-employment than their permanent counterparts (Figure). This is also the case when comparing temporary workers to permanent workers with short tenure, *i.e.* inferior to one year. However, countries differ in the way in which temporary workers move out of employment: while the majority of temporary workers who were not employed had moved into unemployment in most countries, in particular Finland, France, Germany, Greece and Spain, transitions from temporary employment to inactivity predominated in Denmark, Ireland and the United Kingdom (a trend which has become more pronounced over the years).

In terms of age-groups, upward mobility is generally lower for prime-age workers than for youth, who tend to have a higher probability to get a permanent job and a lower probability to move to non-employment. In addition, mobility into permanent jobs tends to

2) Such transition rates were not calculated for the United States since the dividing line between temporary and permanent contracts is difficult to establish in this country, and longitudinal surveys such as SIPP used below to assess low-paid workers mobility do not include such a labour status variable.

be lower for low-educated persons than for medium- and high-educated persons, and the difference is particularly acute in the Southern European countries. The picture is even more clear-cut when looking at mobility from temporary jobs to non-employment, since it is always higher for low-educated workers than for high-educated ones.

Table 1. Transition probabilities of temporary (non-regular) workers[a]

Percentages

		Transitions by economic activity status				
		Permanent (regular) employment	Temporary (non-regular) employment	Not employed	Self-employed	Education/ Training
Korea (1)	t+1	44.3	55.0	0.7	..	..
	t+3	59.5	40.2	0.3	..	..
	t+4	64.8	35.0	0.1	..	..
Korea (2)	t+1	15.0	58.8	16.0	5.9	4.3
EU15	t+1	28.5	44.3	19.8	3.1	4.4
	t+2	41.4	32.4	19.5	3.3	3.5
	t+4	51.0	22.3	19.7	4.7	2.3
	t+6	55.0	16.4	20.7	6.4	1.5

.. Data not available.

a) Transition probabilities for Korea (1) are calculated using data collected by the Korea Labour and Income Panel Survey (KLIPS) from 1999 to 2002; those for Korea (2) are calculated using data collected by the Supplement to the EAPS, August 2003 and August 2004; and those for EU15 are based on data from the European Community Household Panel from 1995 to 2001.

Source: Chun and Lee (2004) for Korea (1), MOL, for Korea (2); and European Union (2004), for EU15.

What are the possible links between trade, FDI and socio-economic disparities?

There are aggregate gains from trade and FDI (with exceptions in special cases)

Theory as well as empirical evidence suggests that trade and investment liberalisation may raise aggregate welfare. This arises as a result of different factors such as: specialisation in line with comparative advantage; exploitation of economies of scale or product variety; dynamic gains from trade resulting from technology spillovers.

Although it is difficult to measure the gains from trade precisely, the empirical literature supports theoretical arguments that trade increases aggregate productivity and welfare. A study of trade among 63 countries associated a rise of one percentage point in the ratio of trade to GDP with an increase in per-capita income of between one-half and two percent (Frankel and Romer, 1999). In a panel data study of 21 OECD countries, Bassanini and Scarpetta (2001) found that an increase in trade openness of 10 percentage points – roughly the increase experienced in the examined economies between 1988 and 1998 – resulted in an increase in output per working-age person of 4%. A number of studies have provided evidence that more open countries typically grow faster than less open ones, in addition to enjoying higher income levels at any given period of time (see OECD (2005) for a survey). Indeed, the contribution of international trade to economic growth can be significant. In the 1990s, countries that have been more open to trade and investment have experienced average annual growth rates twice those of less open countries.

However, there are some dissenting voices, especially as regards the benefits of openness for the growth performance of low-income countries (*e.g.* Rodrik and Rodríguez, 2001). The balance of the evidence supports a positive effect from openness, but additional institutional preconditions – such as the effective rule of law – may need to be in place in order for less developed countries to realise the potential advantages from trade liberalisation.

Trade and FDI may fuel disparities, though evidence suggests that the effect is small

Trade theory demonstrates that trade liberalisation may reduce the welfare of certain individuals even as it improves aggregate productivity and income. In particular, the real wages of certain workforce groups may fall after trade barriers are lowered, including those whose skills are specialised to import-competing industries (as demonstrated by the Ricardo-Viner model) or low-skilled workers in a country in which high-skilled labour is relatively abundant (as demonstrated by the Stolper-Samuelson property of the Hecksher-Ohlin model). Since free trade is Pareto-efficient under standard assumptions, the winners from trade liberalisation could afford to compensate the losers and still enjoy net gains. In fact, however, a comprehensive compensation scheme is rarely if ever implemented and policies to foster international integration must be expected to generate losers as well as winners. This raises the possibility that trade may have distributional effects that violate equity norms or create political opposition to trade liberalisation, even when it would increase aggregate income.

A large body of research addresses the question whether changing trade patterns have been an important cause of the trend toward rising inequality that has recently characterised labour market outcomes in most OECD countries (Feenstra and Hanson, 2003; Torres, 1997). Such a link is plausible on theoretical grounds. Expanded trade between OECD countries and emerging economies, where the latter have a comparative advantage in the production of goods that make intensive use of low-skilled workers, could reduce the wages and/or employment rate of less educated workers in the OECD area. However, most researchers have concluded that trade made a relatively modest contribution to the declining labour market position of low-skilled workers and have pointed to skill-biased technological change as being a more important factor. Nonetheless, it is very difficult to disentangle the causal impacts of these (and other) factors.

Impacts on job insecurity and job displacement can be significant

Rodrik (1998) has argued that greater international economic integration has been a source of increased economic insecurity. Data for 104 countries suggests that countries with greater exposure to foreign trade have experienced greater income and consumption volatility during the past three decades. The link between trade openness and insecurity appears to be strongest when trade liberalisation results in a strong specialisation in production, a pattern that may be more typical for small developing countries than for OECD countries. Nonetheless, the long-run increase in the integration of OECD countries into the international economy may have been a source of increased "turbulence" in labour markets.

Torres (2001) reports similar findings based on the assumption that adjustment costs will be larger, the greater the difference between job requirements in expanding industries and job losses in declining industries. When both expanding and declining industries belong to the same sector, it is usually easier for displaced workers to find a new job. By contrast, moving into employment in entirely different sectors is likely to be more difficult, especially for low-educated workers, whose skills and competencies are often sector specific. Analysis of the manufacturing employment data of 77 countries (between 1986 and 1995) suggests that trade is associated with substantial inter-sectoral labour turnover (and, in this sense, trade is likely to produce relatively damaging displacement effects):

- In countries where the trade/GDP ratio has increased faster than the international average, the movement of labour between sectors is nearly six times larger than the net number of jobs created for the manufacturing sector as a whole. This is twice as much as in countries where the trade/GDP ratio has increased less than the international average.
- Inter-sectoral employment flows have increased in most countries. In countries that have experienced a faster-than-average increase in their trade/GDP ratio, the turnover rate averaged 4.5 in the period 1976-85, compared with almost 6 in 1986-95. The process of job creation is, therefore, accompanied by a significantly higher number of inter-sectoral job changes. There seems to be a correlation between changes in turnover rates and changes in trade/GDP ratios. In other words, as economies open up to trade, inter-sectoral employment flows tend to rise.

OECD (2005) provides evidence on adjustment costs. Data for Canada, the United States and 14 European Union countries indicate that annual displacement rates (the number of workers experiencing permanent layoffs during a year as a share of average employment) are significantly higher in manufacturing than in the services sector. Among manufacturing industries, displacement rates also tend to be higher in the industries where international competition is most intense. Although it is not currently possible to make a precise estimate of how many permanent layoffs are caused by international trade, it is safe to conclude that international competition is an important, although far from the dominant, cause of job displacement.

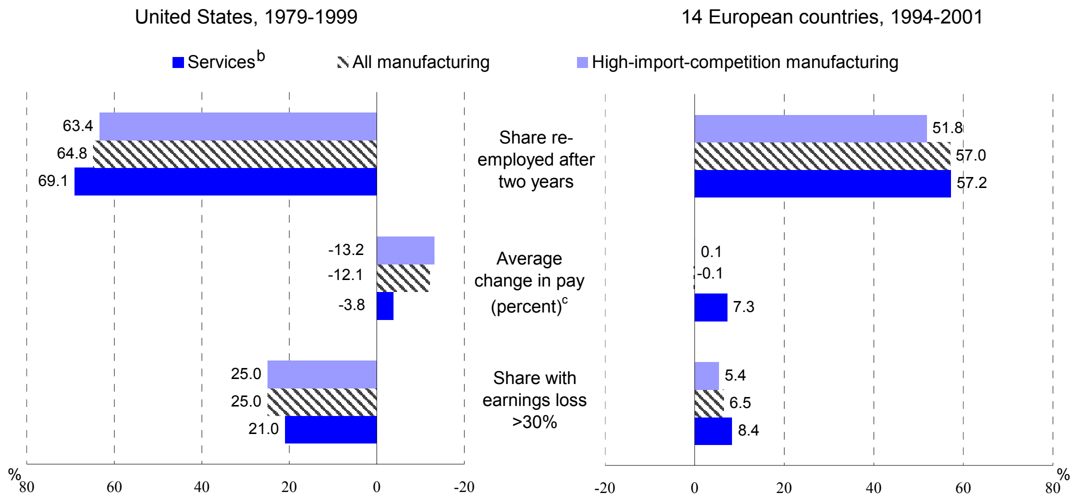
The policy implications of trade-related job losses will vary according to their effect on workers, including the amount of time they spend jobless and whether they earn less in their new job. In fact, adjustment costs appear to be quite high for trade-displaced workers in both the United States and Europe and to exceed those borne by other job losers.

In the United States, workers displaced from jobs in high-international-competition manufacturing industries are moderately less likely to be re-employed approximately two years later (63%) than displaced workers from other manufacturing industries (67%); the re-employment gap is somewhat larger vis-à-vis service sector workers (69% re-employed). Reemployment rates following displacement appear considerably lower in Europe than in the United States, averaging 57% overall and just 52% in high-international-competition industries within manufacturing. This difference suggests that displaced workers typically find it more difficult to find a new job in Europe than in the United States.

Workers displaced from high-import-competing industries in the United States experience an average pay cut of 13% once re-employed, with one-quarter experiencing earnings losses of 30% or more. Workers displaced from the rest of manufacturing fare a little better, whereas earnings losses are significantly smaller for workers displaced from jobs in the service sector, for whom the mean earnings loss is just 4%, although one displaced service worker in five reports an earnings loss of at least 30%. By contrast, earnings are unchanged on average for European workers becoming re-employed following the loss of a job in manufacturing and actually increase by an average of 7% for workers displaced from jobs in the service sector. The share of European workers reporting wage losses of at least 30% is far smaller than in the United States (8% versus 22%, for all displaced workers), evidence that earnings changes between the old and new jobs vary less widely in Europe.

In sum, it appears that trade-displaced workers are at a somewhat greater risk of experiencing wage losses once re-employed, than are other job losers, in both Europe and the United States, but the size of these losses is much greater in the United States. The international competition element of their layoffs does not seem to be the reason why workers displaced from jobs in high-international-competition industries suffer higher average costs than other displaced workers. Compared with other job losers, displaced manufacturing workers in both Europe and the United States tend be older, less educated and to have held the lost job for longer; all characteristics that are associated with above-average re-employment difficulties and larger earnings losses following re-employment. Trade-displaced workers are also more likely to have vocational skills specific to declining occupations and industries.

Chart 8. Adjustment costs are higher for trade-displaced workers than for other job losers, but the biggest source of earnings losses differs between Europe and the United States[a]



a) Workers displaced from high-import-competition manufacturing (and, to a lesser extent, all manufacturing) serve as a proxy for trade-displaced workers.
b) Services and utilities for the United States.
c) Mean change in log wage (x100) between old and new jobs.
Source: OECD Employment Outlook, 2005, Chapter 1.

What types of policies are required?

This analysis of trade displacement provides some useful orientations for analysing policies to lower adjustment costs borne by workers:

- Trade-adjustment costs are best understood as being part of the broader policy challenge of helping workers, particularly those who lose their jobs, to adapt to structural economic change. Meeting this challenge would help make labour markets more adaptable while reducing inequities in the distribution of the costs and benefits from structural economic change.
- Policies that minimise the extent to which trade-related job displacement serves as a pathway to long-term unemployment, premature labour force withdrawal and persistent re-employment at significantly lower wages would significantly reduce adjustment costs. But the policies will need to address the most important barriers to re-employment making full use of displaced workers' productive skills.
- Trade-displaced workers are a diverse group with older, longer service and less educated job losers suffering the greatest earnings losses.
- The national institutional environment does effect to some extent the nature of the

adjustment barriers encountered by trade-displaced workers. In particular, the greatest source of high adjustment costs in Europe is low re-employment rates following job displacement, while lower earnings on the new job are the dominant source of losses in the United States.

More concretely, what types of policies are best suited to lower trade-adjustment costs? Table 2 identifies a number of policies that have been adopted. The table also illustrates two strategic choices that must be made in assembling a coherent policy package to reduce adjustment costs borne by workers: finding good balances between: i) direct and indirect measures; and ii) general and targeted measures.

Table 2. A partial taxonomy of measures for reducing labour-market adjustment costs from trade

Types of measures	Direct	Indirect
General	Unemployment insurance and other income-replacement benefits available to all displaced workers and/or all unemployed under common rules Active labour market programmes available to all displaced workers and/or all unemployed under common rules	Macroeconomic policies conducive to strong growth and high employment Framework conditions for efficient reallocation of labour in response to structural change (e.g. adjustment-friendly EPL and wage-setting institutions) Education and life-long learning programmes to up-skill the work force Broad trade policy measures to restrict imports ("protectionism")
Targeted	Special adjustment assistance or supplementary income-replacement benefits to all trade-displaced workers Special adjustment assistance to specific subgroups of trade-displaced workers (e.g. job losers in specific firms or sectors which face intense import competition)	Industry redevelopment or rationalisation programmes (e.g. tax subsidies, public-private partnerships to develop new sources of comparative advantage) Local economic development Industry specific trade policy (e.g. trade safeguards or anti-dumping measures under WTO rules)

Both direct and indirect measures play important roles. The two key types of direct assistance to trade-displaced workers are active labour market programmes and unemployment benefits, which are discussed below. Indirect measures are also essential to provide an economic environment where workers displaced from declining sectors of the economy can find new jobs that make good use of their skills. The overarching need here is for general policies that strengthen job creation, upgrade work-force skills and steer workers towards the jobs where they are most productive. Trade protectionism is another indirect measure for reducing adjustment costs, but is generally undesirable since it implies foregoing the potential gains from international trade and investment.

While there is a broad consensus that both direct and indirect measures are important, there is much less agreement about whether targeted programmes that serve only trade-displaced workers have a legitimate role to play. In most instances, it appears to be preferable to assist trade-displaced workers using *general* earnings-replacement and active labour market policies. However, experience in a number of OECD countries suggests two types of situations in which *targeted* programmes may represent a useful supplement to general programmes:

- Targeted measures may sometimes be more cost-effective. For example, a dedicated programme may be better able to provide a co-ordinated package of services for workers affected by mass layoffs, especially, those occurring in declining sectors and regions where a protracted process of labour shedding can be foreseen. However, targeted measures of this type have a mixed record, sometimes becoming *de facto* barriers to adjustment. Accordingly, they should be used sparingly, strongly oriented towards facilitating orderly adjustment and time-limited.
- Equity or political economy arguments are sometimes advanced as justification for targeted programmes, such as the idea that trade-displaced workers have a particular claim to public assistance on the grounds that their situation results from a deliberate policy decision to liberalise trade and investment flows. If such non-economic arguments prevail, care should be taken to minimise the inefficiencies and inequities that can result from singling out trade-displaced workers for assistance beyond that offered to other workers encountering similar difficulties.

What role should active labour market programmes play?

By helping trade-displaced workers to re-integrate into employment, active labour market programmes (ALMPs) can enhance the adaptive capacity of labour markets, even as they reduce the earnings losses experienced by job losers. Evaluations of ALMPs suggest that well-designed measures can be cost effective, with job-search assistance being among the measures that perform best. Results are more mixed for evaluations of training and other intensive forms of assistance. This suggests that, care should be exercised in targeting more intensive measures to those workers who will benefit most from them.

From an economy-wide perspective, successful adaptation to changing trade patterns requires that labour flow from declining to expanding industries. This suggests that workers displaced from declining industries should be encouraged to direct their job search towards expanding industries and offered the training necessary for them to qualify for those jobs. Thus, it might be argued that training is well suited to meeting the adjustment assistance needs of a large share of trade-displaced workers, despite the presumption that it should be used sparingly, in general.

In fact, the situation is quite complicated as regards training. The majority of displaced manufacturing workers find new jobs in this same sector. This is possible, despite the downward trend of manufacturing employment in most OECD countries, because high labour turnover rates mean that there is considerable hiring even in declining industries. Earnings losses are also significantly smaller for workers finding a new job in the same industry. These patterns suggest that it makes good sense for some, particularly older, trade-displaced workers to search for new jobs in the same industry, where they can make good use of their experience and skills, rather than trying to retool them for jobs in more dynamic sectors of the economy. The adjustment experience of trade-displaced workers thus tends to reinforce the conclusion from evaluation studies of ALMPs: training and other intensive measures should be reserved for a relatively small number of individuals for whom job-search assistance alone is inadequate.

Box 1. What role can proactive measures play?

The job losses caused by trade shocks are sometimes sufficiently predictable to allow adjustment assistance to begin in advance of workers' layoffs. It appears that proactive measures can make an important contribution to lowering adjustment costs. Employer-provided advance notice is a prerequisite for implementing proactive measures in many cases. It is also of value in its own right for giving workers a head start in searching for a new job. Research in the United States has shown that displaced workers receiving advance notice spend less time unemployed than workers laid-off without any advance warning and there is also some indication of a positive impact on post-displacement wages for workers who have received advance notification.

The positive impact of advanced notice in reducing adjustment costs may be enhanced if the notified workers are also offered job-search assistance or retraining during the notice period. Several OECD countries have rapid-response systems in place that are triggered by the announcement of a collective dismissal and then work to mitigate the potential effects of a mass layoff (e.g. by orienting workers toward existing vacancies in advance of dislocation). Nordic countries provide some of the most comprehensive proactive services to workers affected by an announced collective dismissal. In these countries outreach is emphasised as employment office personnel are dispatched to firms where layoffs have been announced. In Finland, an office of the Public Employment Service is often established on the premises of the dismissing firm. Through these field offices, workers may access all of the services offered by the PES during the notice period, including training.

Should trade-displaced workers be compensated?

Trade theorists often point out that the "winners" from trade and investment liberalisation could compensate the "losers" and still come out ahead. These types of compensation schemes tend not to be used in practice, but unemployment insurance (and other earnings-replacement benefits) do play an important role in cushioning the income losses that result from trade-related job displacement. It is evident that unemployment benefits may lead to a more even distribution of the benefits and costs of international economic integration. These benefit schemes may also provide job losers with the economic wherewithal to search for a new job that makes good use of their skills or to undertake further training to qualify for existing job vacancies. However, inefficiencies might also result, since unemployment benefits tend to blunt incentives for trade-displaced workers to search for a new job.

Dis-incentives may be particularly strong for trade-displaced workers whose job experience and skills are a poor match for the available jobs. Typically, such workers will have to accept a significant pay cut to become re-employed. In such instances, unemployment benefit payments that may appear modest, when compared to previous earnings, may be much higher compared to prospective earnings and thus discourage taking a new job.. This suggests that policy makers may face a difficult trade off between providing adequate benefits and preserving incentives to find work.

Wage insurance schemes, such as those recently introduced in France, Germany and the United States, may represent a useful supplement to conventional unemployment benefits for compensating trade-displaced workers. Wage insurance pays a displaced worker, who accepts a new job at a lower wage within a specified period of time, an earnings subsidy that replaces a fraction of the difference between earning on the old and new jobs. For example, the German and U.S. schemes replace 50% of the wage gap (up to certain maxima). These payments may be temporary. Whereas conventional unemployment benefits provide social insurance against the loss of earnings due to unemployment, wage insurance cushions income losses that persist after displaced workers are re-employed. As discussed above, these latter losses can be quite large.

OECD Governments have too little experience with wage insurance programmes to evaluate their cost-effectiveness with any rigor. A pilot programme in Canada during the 1990s (the Earnings Supplement Project) showed that such schemes can speed re-employment, by making job losers more willing to accept jobs that pay somewhat less than their previous ones. However, the resulting savings in unemployment benefits were not large enough to fully offset the new spending on in-work benefits.

What is the bottom line?

As a flash-point for public anxieties concerning economic insecurity, the perceived impact of globalisation on OECD labour markets currently looms very large. Happily, recent OECD analysis indicates that the actual impact of international economic integration is unlikely to confirm the worst of these fears. Nonetheless, trade-related job displacement and the attendant adjustment difficulties represent a serious policy challenge. Familiar policy instruments, such as unemployment benefits, active labour market programmes and skill development programmes can significantly reduce the insecurity resulting from trade-related displacement by fostering re-integration into employment and cushioning the impact of earnings losses on family incomes. More fundamentally, it is crucial to ensure that policies are employment-friendly – the restated OECD Jobs Staregy provides a reference in this regard (OECD, 2006).

Popular fears about job losses from globalisation suggest that there is still room to improve the adjustment assistance available to workers as they navigate in increasingly globalised labour markets. Greater use of proactive measures or innovative ideas, such as wage insurance, might help to better reconcile high adjustment capacities, at the level of firms and the overall labour market, with sustained "employability" and earnings security for individual members of a diverse and ageing labour force. Since international trade and investment are only one of the sources of employment and earnings insecurity for workers, it is also important to consider how assistance to trade-displaced workers can best be incorporated into an overall strategy for achieving high employment rates in the context of continuous structural economic change.

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Socio-Economic Disparity in APEC and the World with Special Reference to Canada

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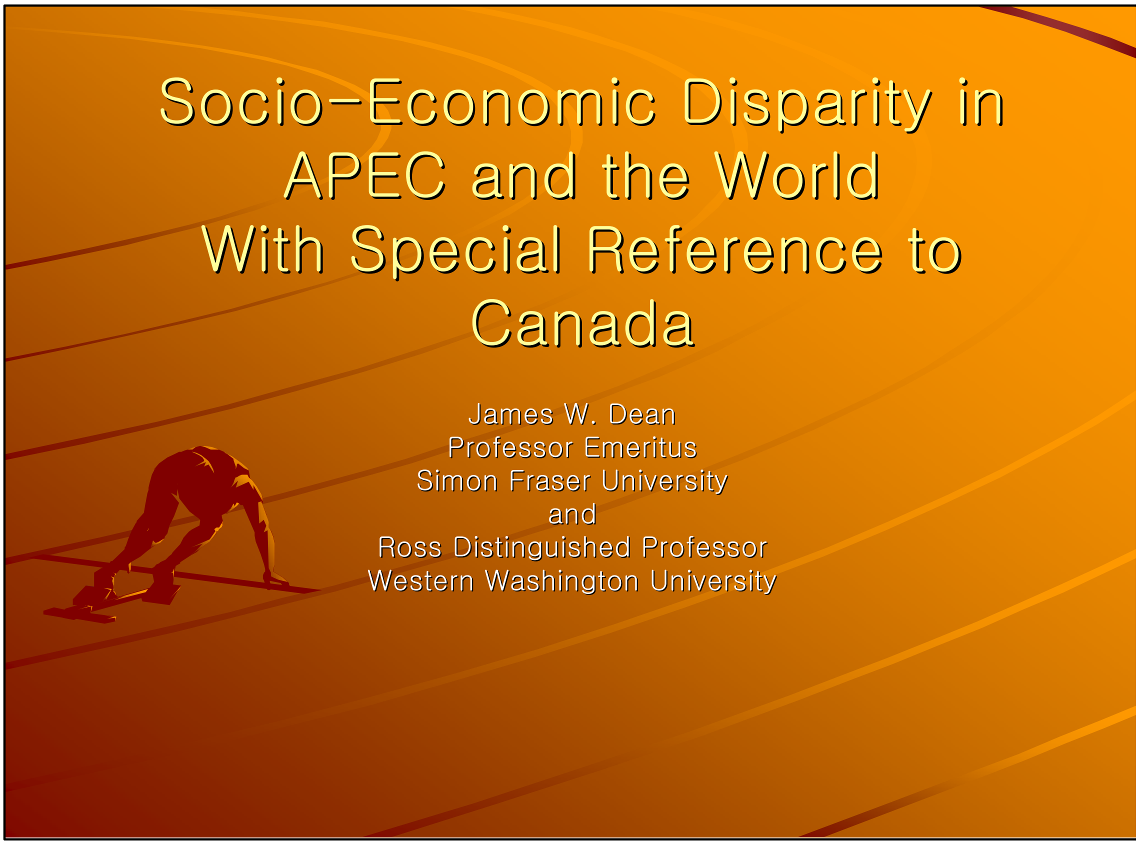
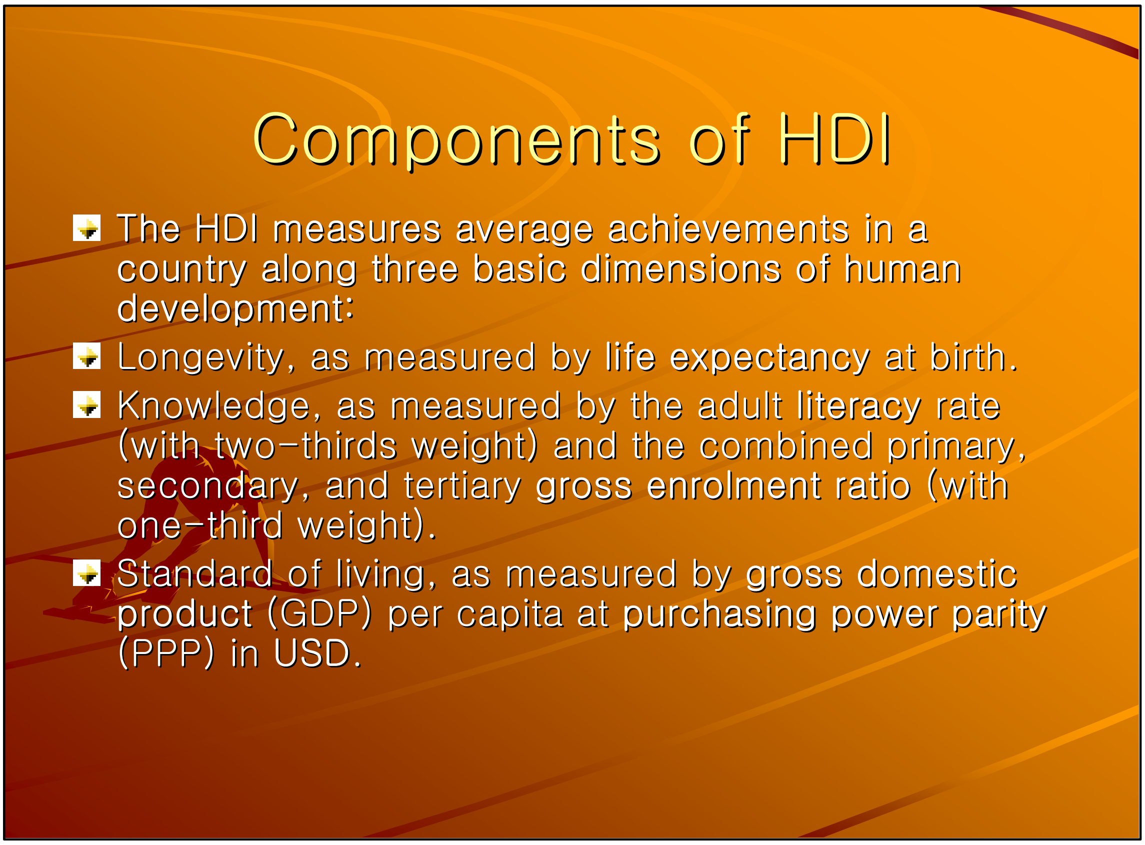
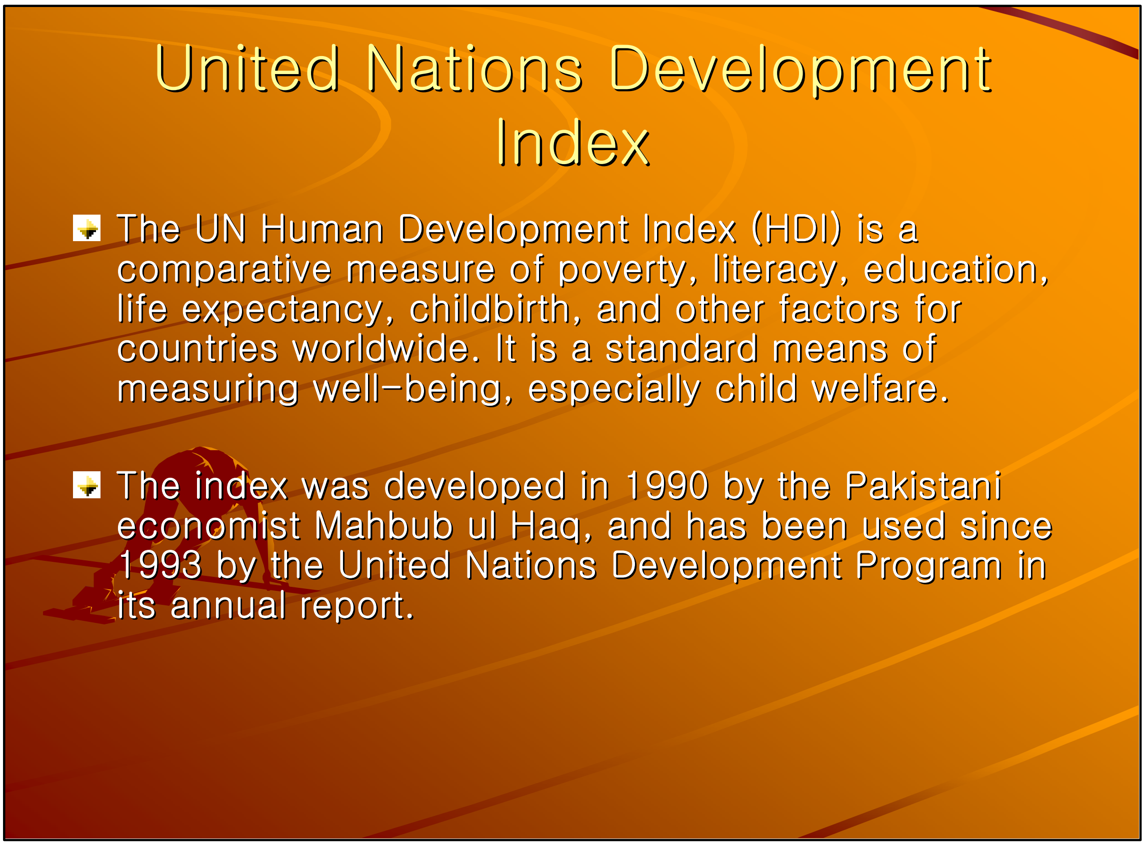



Components of HDI
The HDI measures average achievements in a country along three basic dimensions of human development:
Longevity, as measured by life expectancy at birth.
Knowledge, as measured by the adult literacy rate (with two-thirds weight) and the combined primary, secondary, and tertiary gross enrolment ratio (with one-third weight).
Standard of living, as measured by gross domestic product (GDP) per capita at purchasing power parity (PPP) in USD.


United Nations Development Index
The UN Human Development Index (HDI) is a comparative measure of poverty, literacy, education, life expectancy, childbirth, and other factors for countries worldwide. It is a standard means of measuring well-being, especially child welfare.
The index was developed in 1990 by the Pakistani economist Mahbub ul Haq, and has been used since 1993 by the United Nations Development Program in its annual report.

Number 1 countries on HDI

- 2004 – Norway
- 2003 – Norway
- 2002 – Norway
- 2001 – Norway
- 2000 – Canada
- 1999 – Canada
- 1998 – Canada
- 1997 – Canada
- 1996 – Canada
- 1995 – Canada
- 1994 – Canada
- 1993 – Japan

HDI for 2005

- The UNDP report for 2005 shows that the HDI for countries around the world is mostly improving, with two major exceptions: Post-Soviet states, and Sub-Saharan Africa, both of which show steady decline.
- Worsening education, economies and mortality rates caused declines in the HDIs amongst the first group while HIV/AIDS is the principal cause of decline in the second group.

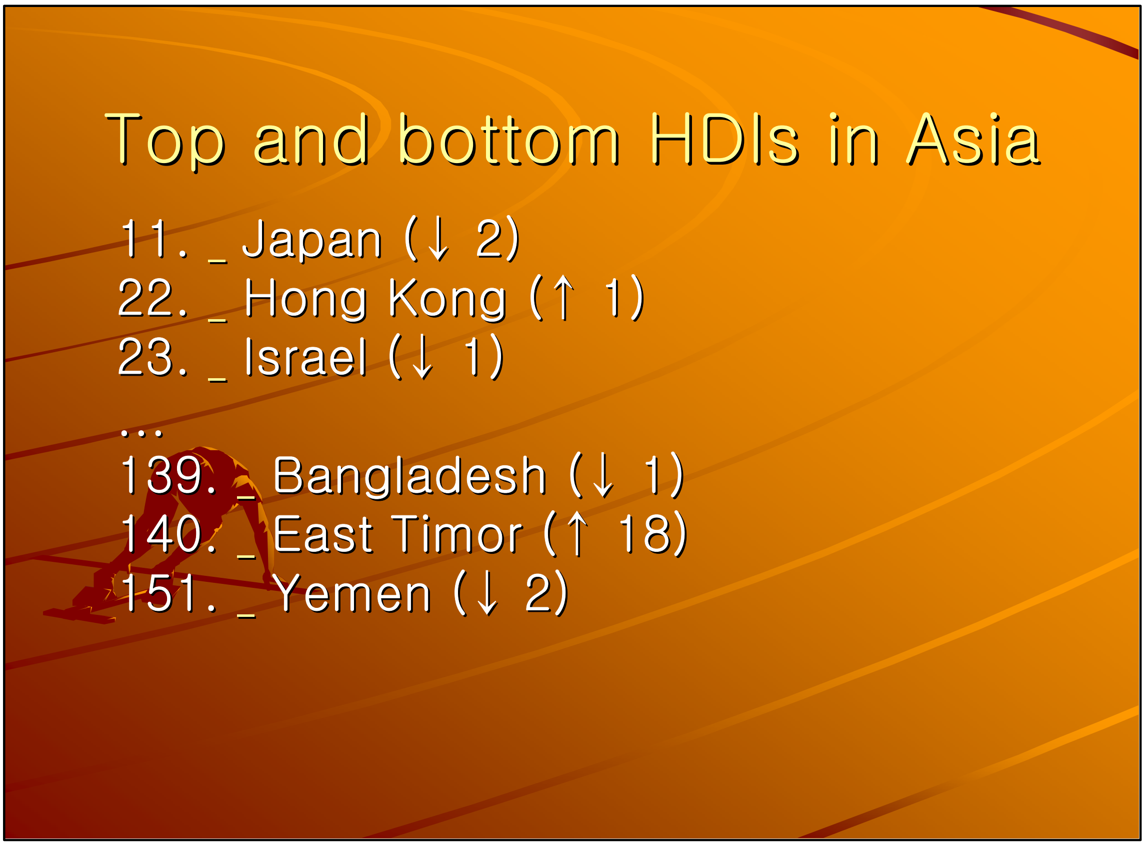
Lowest HDIs

- An HDI below 0.5 is considered to represent *low development*. 30 of the 32 countries in that category are located in Africa, with the exceptions of Haiti and Yemen.
- The bottom ten countries are all in Africa. The highest-scoring Sub-Saharan country, South Africa, is ranked 120th (with an HDI of 0.658), which is well above most other countries in the region.

Highest HDIs

- An HDI of 0.8 or more is considered to represent *high development*. This includes countries of northern Europe (e.g., Scandinavian countries), Australia, Canada, the United States, and Japan.
- Countries that exhibit high human development amidst countries with lower HDIs include (with their position) South Korea (28th), Costa Rica (47th), Cuba (52nd),
and Panama (56th).


Top 30 HDIs
Note: Number in parentheses indicates change in rank since last report.
Top thirty countries (HDI range from 0.963 down to 0.878)
_ Norway (=)
_ Iceland (↑ 5)
_ Australia (=)
_ Luxembourg (↑ 11)
_ Canada (↓ 1)
_ Sweden (↓ 4)
_ Switzerland (↑ 4)
_ Ireland (↑ 2)
_ Belgium (↓ 3)
_ United States (↓ 2)
_ Japan (↓ 2) **
_ Netherlands (↓ 7)
_ Finland (=)
_ Denmark (↑ 3)
_ United Kingdom (↓ 3)
_ France (=)
_ Austria (↓ 3)
_ Italy (↑ 3)
_ New Zealand (↓ 1)
_ Germany (↓ 1)
_ Spain (↓ 1)
_ Hong Kong (↑ 1) **
_ Israel (↓ 1)
_ Greece (=)
_ Singapore (=) **
_ Slovenia (↑ 1)
_ Portugal (↓ 1)
_ Republic of Korea (=) **
_ Cyprus (↑ 1)
_ Barbados (↓ 1)
** Asian country


Top and bottom HDIs in Asia
11. _ Japan (↓ 2)
22. _ Hong Kong (↑ 1)
23. _ Israel (↓ 1)
...
139. _ Bangladesh (↓ 1)
140. _ East Timor (↑ 18)
151. _ Yemen (↓ 2)

Asian countries not ranked by UNDP

- Afghanistan
- North Korea
- Iraq
- Chinese Taipei *
- * (Chinese Taipei) has calculated its HDI to be 0.910 for 2003 based on the following data: life expectancy of 76.1 years, adult literacy rate of 97.0%, combined gross enrollment rate of 97%, and GDP per capita (PPP) of US$23,911. If included among UN HDI figures, Chinese Taipei would rank 25th: behind Greece and in front of Singapore.

Canada's High HDI?

Canada is relatively unique in four ways

1. Though culturally close to the U.S., its preferences for income equality and security are closer to Europe's.
2. It assigns government an economic role that is closer to Europe's or Asia's than does the U.S.
3. Its exports are much more resource-intensive than those of the US, Europe or Asia. This implies more income variance over time and space and indirectly has prompted more redistributive policies.
4. Its exports and imports have risen by almost one-third since FTA with the US in 1989. Yet its HDI has remained high: hence more "globalization" has not hurt Canada in that respect.

Canada's preference for equality and security

The leading Canadian researchers on well-being are Lars Osberg and Andrew Sharpe ("OS"). Their Index of Worker Well-Being ("ILMW") has four components:

1. Average return from work
2. Accumulated human capital (which enables future returns from work)
3. Inequality in current returns from work
4. Insecurity about expected returns from work

Canada's preference for equality and security

OS (2004) calculate the ILMW for 16 OECD countries 1980 – 2001. In 2001:

Norway ranks 1st, Canada 2nd and the US 15th and New Zealand last, at 16th.

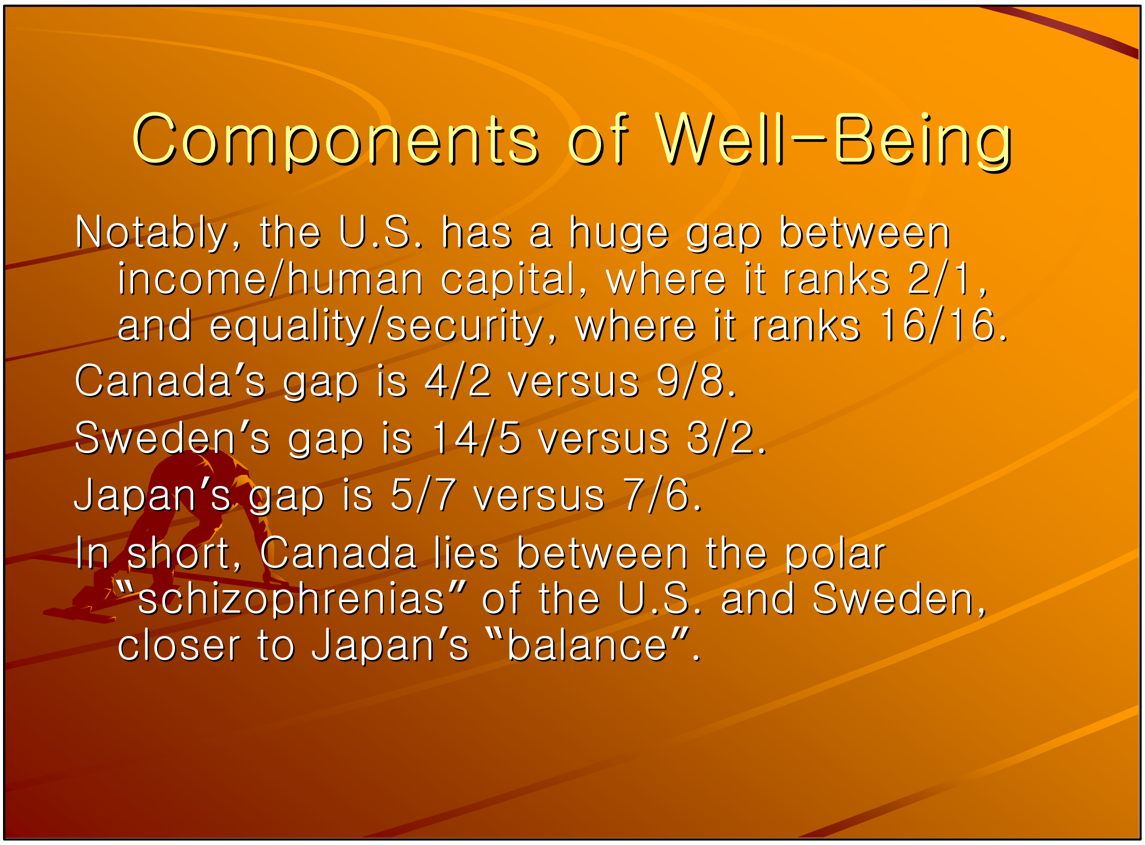
In terms of positive changes in index values from 1980 to 2001, Finland is 1st, Canada 4th, and (with negative changes) the US is 12th and New Zealand 16th.

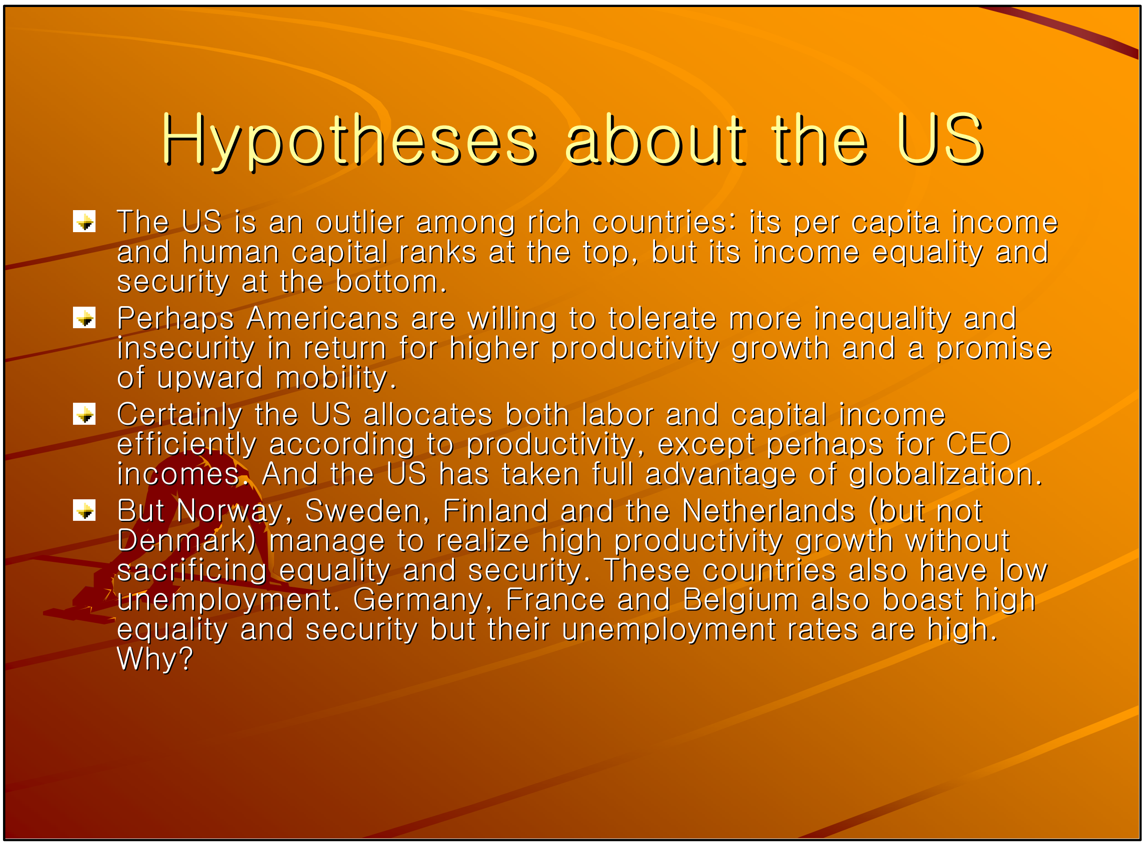
	Overall ILMW Index			Labour Market Income			Human Capital		
	2001 Level	Difference from 1981	Rank 2001	2001 Level	Difference	Rank 2001	2001 Level	Difference	Rank 2001
Australia	0.584	0.067	12	0.448	0.224	13	0.883	0.098	4
Belgium	0.686	0.151	2	0.892	0.349	1	0.603	0.212	15
Canada	0.611	0.160	10	0.653	0.357	4	0.902	0.154	2
Denmark	0.628	0.032	9	0.530	0.149	11	0.737	0.065	9
Finland	0.653	0.199	5	0.514	0.420	12	0.724	0.258	11
France	0.590	0.139	11	0.618	0.276	6	0.618	0.162	14
Germany	0.660	0.097	4	0.532	0.141	10	0.902	0.169	3
Italy	0.521	0.142	14	0.588	0.182	7	0.392	0.309	16
Japan	0.637	0.169	7	0.623	0.430	5	0.754	0.226	7
Netherlands	0.633	0.074	8	0.561	−0.005	9	0.724	0.266	10
New Zealand	0.513	0.029	16	0.138	−0.060	16	0.789	0.109	6
Norway	0.700	0.191	1	0.574	0.420	8	0.748	0.201	8
Sweden	0.640	0.099	6	0.413	0.172	14	0.706	0.284	12
Switzerland	0.678	0.104	3	0.693	0.170	3	0.839	0.155	5
UK	0.540	0.102	13	0.412	0.310	15	0.652	0.208	13
US	0.520	0.094	15	0.818	0.334	2	0.917	0.165	1

	Labour Market Equity			Labour Market Security		
	2001 Level	Difference	Rank 2001	2001 Level	Difference	Rank 2001
Australia	0.704	−0.018	1	0.300	−0.037	15
Belgium	0.401	0.024	12	0.401	0.024	11
Canada	0.463	0.179	9	0.463	0.179	8
Denmark	0.375	−0.079	13	0.375	−0.079	12
Finland	0.554	0.100	4	0.554	0.100	3
France	0.502	0.122	5	0.502	0.122	4
Germany	0.371	−0.003	15	0.371	−0.003	14
Italy	0.373	0.110	14	0.373	0.110	13
Japan	0.488	0.020	7	0.488	0.020	6
Netherlands	0.470	0.052	8	0.470	0.052	7
New Zealand	0.449	0.101	10	0.449	0.101	9
Norway	0.570	0.128	2	0.570	0.128	1
Sweden	0.566	−0.041	3	0.566	−0.041	2
Switzerland	0.430	0.092	11	0.430	0.092	10
UK	0.493	0.021	6	0.493	0.021	5
US	0.260	0.083	16	0.260	0.083	16

	Ranks of Overall ILMW Index				Labour Market Income			Human Capital	
	Rank 1980	Rank 2001	Rank of Absolute change 1980–2001	Rank 1980	Rank 2001	Rank of Absolute change 1980–2001	Rank 1980	Rank 2001	Rank of Absolute change 1980–2001
Australia	7	12	14	11	13	9	1	4	15
Belgium	6	2	5	2	1	5	15	15	6
Canada	13	10	4	9	4	4	3	2	13
Denmark	1	9	15	7	11	13	7	9	16
Finland	11	5	1	16	12	3	10	11	4
France	12	11	7	8	6	8	12	14	11
Germany	3	4	11	6	10	14	4	3	9
Italy	16	14	6	5	7	10	16	16	1
Japan	10	7	3	13	5	1	9	7	5
Netherlands	4	8	13	1	9	15	11	10	3
New Zealand	9	16	16	12	16	16	6	6	14
Norway	8	1	2	14	8	2	8	8	8
Sweden	5	6	10	10	14	11	14	12	2
Switzerland	2	3	8	3	3	12	5	5	12
UK	14	13	9	15	15	7	13	13	7
US	15	15	12	4	2	6	2	1	10

		Labour Market Equity				Labour Market Security		
	Rank 1980	**Rank 2001**	**Rank of Absolute change 1980-2001**	**Rank 2001**	**Rank 1980**	**Rank 2001**	**Rank of Absolute change 1980-2001**	**Rank 2001**
Australia	1	1	14	1	12	15	14	15
Belgium	10	12	10	12	9	11	10	11
Canada	14	9	1	9	14	8	1	8
Denmark	5	13	16	13	4	12	16	12
Finland	6	4	6	4	5	3	6	3
France	9	5	3	5	8	4	3	4
Germany	11	15	13	15	10	14	13	14
Italy	15	14	4	14	15	13	4	13
Japan	4	7	12	7	3	6	12	6
Netherlands	8	8	9	8	7	7	9	7
New Zealand	12	10	5	10	11	9	5	9
Norway	7	2	2	2	6	1	2	1
Sweden	2	3	15	3	1	2	15	2
Switzerland	13	11	7	11	13	10	7	10
UK	3	6	11	6	2	5	11	5
US	16	16	8	16	16	16	8	16


Components of Well-Being
Notably, the U.S. has a huge gap between income/human capital, where it ranks 2/1, and equality/security, where it ranks 16/16.
Canada's gap is 4/2 versus 9/8.
Sweden's gap is 14/5 versus 3/2.
Japan's gap is 5/7 versus 7/6.
In short, Canada lies between the polar "schizophrenias" of the U.S. and Sweden, closer to Japan's "balance".


Hypotheses about the US
The US is an outlier among rich countries: its per capita income and human capital ranks at the top, but its income equality and security at the bottom.
Perhaps Americans are willing to tolerate more inequality and insecurity in return for higher productivity growth and a promise of upward mobility.
Certainly the US allocates both labor and capital income efficiently according to productivity, except perhaps for CEO incomes. And the US has taken full advantage of globalization.
But Norway, Sweden, Finland and the Netherlands (but not Denmark) manage to realize high productivity growth without sacrificing equality and security. These countries also have low unemployment. Germany, France and Belgium also boast high equality and security but their unemployment rates are high. Why?

More hypotheses

- Although the US seems to tolerate inequality and insecurity because of a promise of upward mobility, evidence shows that Canada, Australia and several European countries offer more inter-generational mobility. Americans seem still to believe in their "dream" despite reality.
- Other evidence (Osberg and Smeeding, 2006) finds that although Americans have less concern for reducing inequalities between lower incomes, they have similar preferences for overall equality, and are as concerned as other nationalities to "level down" top earners. Perhaps they sense that meritocracy breaks down at the CEO-Superstar level? (US CEO salaries are now 300 times average wages, far higher than any other country, though Canada is getting close).

Widening gaps between incomes but not between labor and capital?

- Since the bottom of the last U.S. recession in 2001, labor's share in income has risen by just 11%, versus 16% for capital. Canadian, European and Japanese data are similar.The conventional explanation is labor-intensive imports from Asia, esp. China.
- However, recent research for the US by Ian Dew-Becker and Robert Gordon (NBER w.p. 11842 Dec 2005) shows that labor's share in GDP relative to capital's actually *rose* 1966-2001, but inequality *within* labor income increased.

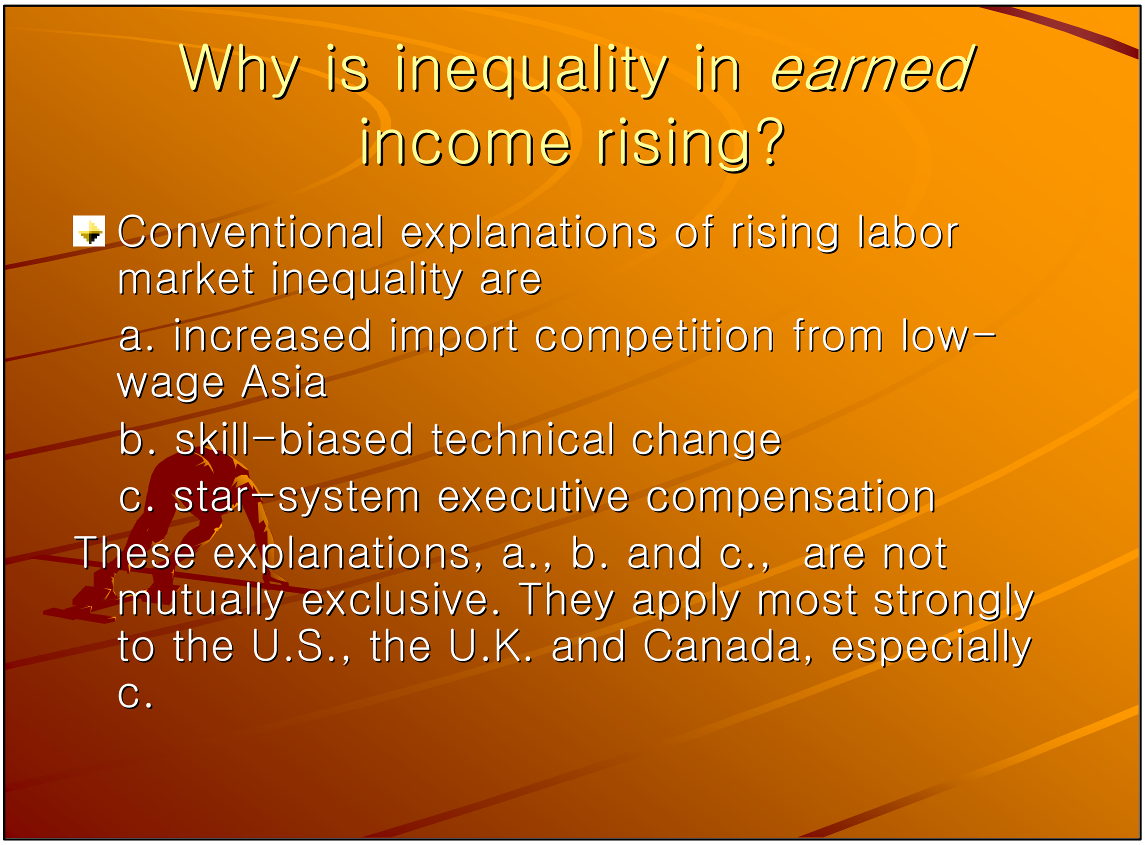
Increasing inequality within labor income

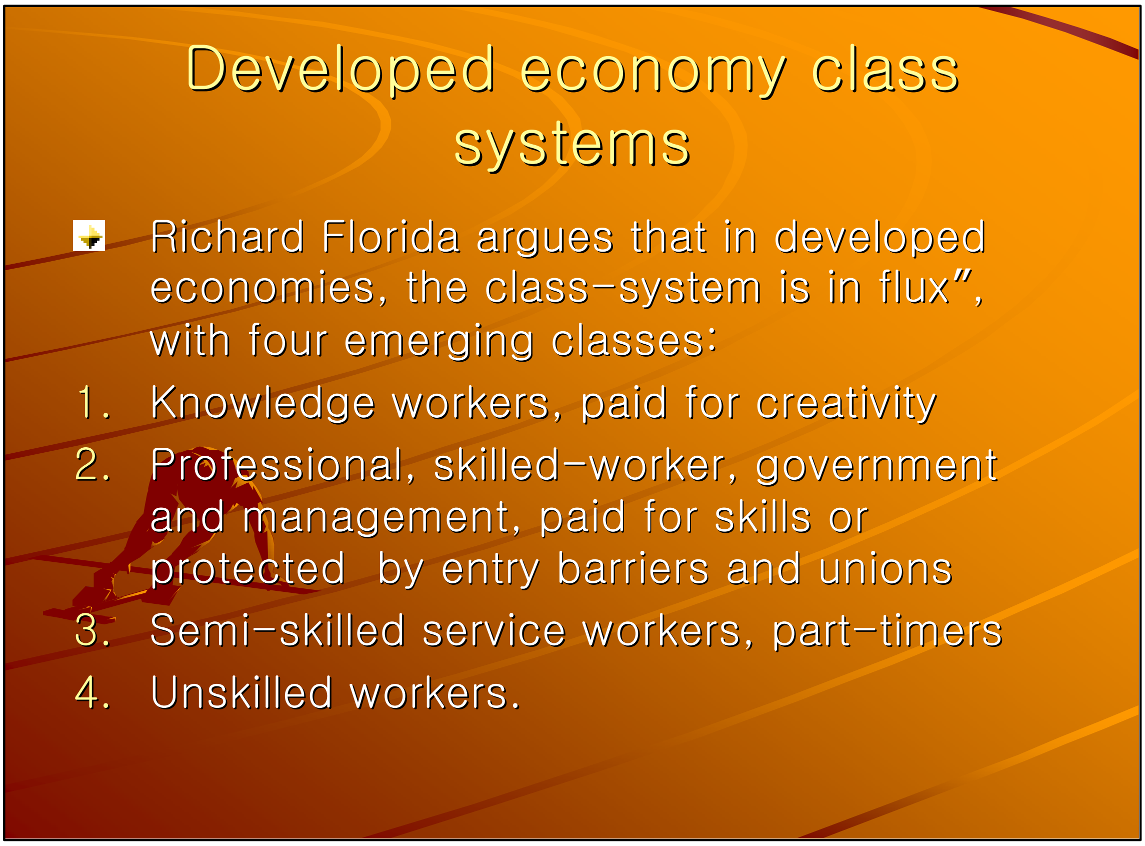
- Dew-Becker and Gordon's findings are consistent with ILMW for the U.S. But they are not consistent with other countries'.
- From 1980 – 2001, the "labour market equality" component of ILMW for the U.S. fell from .2666 to .0833; for Canada it fell less, from .4645 to .4237. Most of the 16 ranked OECD countries also fell, notably the U.K. from .7067 to .6017, but 6 actually rose: Belgium, Finland, Germany (markedly, from .7543 to .8358), Japan, Norway and (marginally) Switzerland.

Labor Market Security Also Rose

The labor market security component of the ILMW rose in all but 3 of the 16 ranked OCED countries.

But all 3 countries that fell started from high levels of security, and in 2001 all 3 still had security indices higher than the U.S.'s .2601: Australia's is .3003, Denmark's .3749, and Sweden's .8770!


Why is inequality in *earned* income rising?
Conventional explanations of rising labor market inequality are
a. increased import competition from low-wage Asia
b. skill-biased technical change
c. star-system executive compensation
These explanations, a., b. and c., are not mutually exclusive. They apply most strongly to the U.S., the U.K. and Canada, especially c.


Developed economy class systems
Richard Florida argues that in developed economies, the class-system is in flux", with four emerging classes:
1. Knowledge workers, paid for creativity
2. Professional, skilled-worker, government and management, paid for skills or protected by entry barriers and unions
3. Semi-skilled service workers, part-timers
4. Unskilled workers.

Conclusions

- 1. Technology and trade seem to have increased disparities in returns to labor over the past decade or two.
- 2. However, outcomes differ between
- countries, apparently depending on relative preferences for equality versus meritocracy.
- 3. Equality derives from regulated labor markets and/or redistributive taxes and transfers. Perhaps France and Germany rely more on the former and Scandinavia more on the latter: hence Scandinavia's higher productivity growth and lower unemployment. What explains China versus Korea?

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Social Safety Nets and Socio-Economic Disparity under Globalization

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I. Socio-economic disparity：A growing income disparity perspective

As of the end of 2003, Gini coefficient of Chinese Taipei was 0.343 compared to that of 0.277 in 1980; income discrepancy between the highest and the lowest fifth households has evidently increased. To be specific, the highest 20% and the lowest 20% households' income gap have grown from 4.17 times in 1980 to 6.07 times in 2003. Widening income differentials certainly is not unique to Chinese Taipei; it seems to have become a

Table 1. Income Distribution of Few APEC Economies
—Income Gap between the Top and Bottom 20% Households

Unit：Times

Year	Chinese Taipei	Korea	Japan	USA	Hong Kong	Singapore
1988	4.85	5.72				
1989	4.94	5.63	2.60			
1990	5.18	5.54	3.02			11.4
1991	4.97	5.44	3.44		12.28	10.0
1992	5.24	5.35	3.86		12.87	9.0
1993	5.42	5.26	4.28	8.61	13.45	8.5
1994	5.38	5.16	4.70	8.50	14.04	10.0
1995	5.34	5.06	4.73	8.48	14.62	13.8
1996	5.38	4.96	4.76	8.75	15.21	13.7
1997	5.41	5.43	4.78	9.50	15.71	13.6
1998	5.51	5.90	4.81	9.70	16.21	14.6
1999	5.50	5.49	4.84	9.90	16.70	17.9
2000	5.55	6.84		10.10	17.20	20.9
2001	6.39			10.44	17.70	
2002	6.16			10.20		
2003	6.07	6.84	4.84	10.20	17.66	20.91

Source: Directorate General of Budget, Accounting and Statistics, Executive Yuan, Republic of China, 2004, *Social Indicators: The Republic of China, 2004.*

ubiquitous phenomenon world wide. Taking few member economies in APEC, for example, it can be observed that the income disparities between the richest 20% and the lowest 20% households over Japan, Korea, Hong Kong and Singapore as well as US are all rising during 1988 to 2003. (See Table 1)

Besides, the accumulation of wealth has been extraordinarily concentrated on the very top; one UNDP report revealed that in 1996 the assets of the world's 358 billionaires exceeded the combined incomes of 45 per cent of the world population.(Faux and Mishel: 2000-93) Faux and Mishel's study further depicted that not only equality among nations has not improved with many of the poorest nations suffering an absolute decline in incomes, but inequality seems to have worsened within nations. (Faux and Mishel: 2000--93-4) They pointed out that in the mid-1960s, when annual growth rate was rising at about 6 per cent, the ratio between the income of the top chief executive officers (CEOs) of American corporations and the wage of the average production worker was 39 to 1. In 1997, after three decades of slower growth, the same ratio climbed to that of 254 to 1. (Faux and Mishel: 2000-- 95) Research conducted by Ravallion and Chen (1997) on the same subject presented a measure of the trends in polarization, further delineating that the middle zone shrinks and the bottom as well as the top expand. In fact, 2004 data with regard to high-net worth individual yielded that there were 8,300,000 millionaires world-wide by the end of 2004; their net wealth amounted to US$30 trillion and 2000 billion dollars, 8.2% average growth compared to 2003. North American with 9.7% growth rate is still ranked as the fastest growing region in terms of the total number of millionaires, followed by the Middle East's 9.5% and Asia's 8.2% growth rate respectively. (See Table 2)

Table 2. World Millionaire High Net Wealth Individual－HNWI (2004)

Region	No. of Millionaire	Growth rate compare to previous year
North America	2,700,000	10
Europe	2,600,000	4
Asia-Pacific	230,000	8
Chinese Taipei	55,400	6.4

It is fully aware that tracking the parallel changes in income distribution is definitely a complicated task. As summarized so succinctly by Faux and Mishel(2000--98) that income inequality is hard enough to measure in the developed nations, very difficult in the less developed, and virtually impossible in the poorest. Nevertheless, given the aforementioned, it perhaps would not be too presumptuous to state that those inspired by the vision of one global economy seem to have ignored the issue of income and wealth inequality at their peril.

II. Characteristics of the Poor

Who are exactly the poor then? Some scholars (Gottschalk and Smeeding:1997; Esping-Anderson, et. al.: 2002) contended that the main driving forces behind the

Table 3. Poverty and Inequality Indicators (2005)

Region	Developing Member Countries	Population in Poverty (%) (National Poverty Line)[a]				Proportion of Population Below $1(PPP) a Day (%)		Income [b] Ratio of Highest 20% to Lowest 20%		Gini Coefficient[c]
		Total	Urban	Rural	Year					
APEC Member Economies	People's Rep. of China	4.6	2	4.6	(1998)	16.6	(2001)	10.64	(2001)	0.45
	Hong Kong, China	...	...	...		...		9.65	(1996)	0.43
	Rep. of Korea	3.6	...	...	(2000)	< 2.0	(1998)	5.17	(2003)	0.31
	Chinese Taipei	0.76[d]	...	...	(2002)	...		6.07	(2003)	0.35
	Indonesia	18.2	14.5	21.1	(2002)	7.51	(2002)	5.15	(2002)	0.34
	Malaysia	7.5	3.4	12.4	(1999)	0.2	(1997)	7.10	(1999)	0.44
	Philippines	30.4	...	...	(2003)	15.5	(2000)	9.72	(2000)	0.46
	Singapore	...	...	...		...		9.71	(1998)	0.43
	Thailand	9.8	4	12.6	(2002)	1.9	(2000)	8.25	(2000)	0.43
	Viet Nam	28.9	6.6	35.6	(2002)	13.1	(2002)	6.00	(2002)	0.37
	Papua New Guinea	37.5	16.1	41.3	(1996)	24.6	(1996)	12.56	(1996)	0.51
South Asia	Cambodia	35.9	18.2	40.1	(1999)	34.07	(1997)	4.67	(1999)	0.45
	Lao PDR	38.6	26.86	40.97	(1997)	39	(1997)	5.97	(1997)	0.37
	Bangladesh	49.8	36.6	53	(2000)	36	(2000)	4.57	(2000)	0.32
	India	28.6	24.7	30.2	(2000)	35.3	(1999)	4.90	(2000)	0.33
	Maldives	43	20	50	(1998)	0.1	(1998)	...		...
	Nepal	30.85	9.55	34.62	(2004)	39.1	(1995)	7.00	(2004)	0.40
	Pakistan	32.6	25.9	34.8	(1999)	25.3	(1999)	4.83	(1999)	0.33
	Sri Lanka	25	15	27	(1996)	7.6	(2000)	5.10	(2000)	0.33
Central Asia	Azerbaijan	49.6	...	...	(2001)	3.67	(2001)	5.99	(2001)	0.37
	Tajikistan	56.6	47.7	59.9	(2003)	7.42	(2003)	5.20	(2003)	0.33
	Turkmenistan	29.9	20.1	31.1	(1998)	12.07	(1998)	7.73	(1998)	0.41
	Uzbekistan	27.5	22.5	30.5	(2000)	17.3	(2000)	3.97	(2000)	0.27
Pacific Developing Member Countries	Fiji Islands	25.5[e]	27.6[e]	22.4[e]	(1990)	25	(1990)	9.82	(1990)	0.49
	Kiribati	51[f]	...	...	(1996)	38	(1996)	5.70	(1996)	...
	Samoa	20.3[f]	...	...	(2002)	5.5	(2002)	8.40	(2002)	0.44
	Timor Lester	41	26	46	(2001)	...		6.58	(2001)	0.35
	Tonga	22.7[f]	...	...	(2001)	4	(2001)	9.70	(2001)	0.42

Notes: a When available, official poverty lines are used. In some countries, no official poverty line is available, and data may have been computed by non governmental agencies.

b Refers to income or expenditure.

c Calculated based on income or expenditure and refers to the same year as that of the Income Ratio except for Chinese Taipei whose Gini coefficient is for the year 2002.

d Defined as percent of low income population to total population.

e Refers to percentage of population below basic needs. Rural areas refer to rural villages only; poverty incidence in rural settlements is 26.2 percent.

f Refers to percentage of poor households.

Source: Asian Development Bank, 2005, *Key Indicators 2005: Labor Markets in Asia: Promoting Full, Productive, and Decent Employment*, http://www.adb.org/documents/books/key_indicators/2005/default.asp augmenting income inequality have been the growing inequality of earnings, which have occurred in most of the advanced countries during the 1980s and 1990s. Demographic factors such as the growth of single-mother households or aged households which propel the number and share of low-income households, also add to the increased inequality.

Statistical data demonstrated that the following groups are the ones most likely to be hit by poverty, namely: (See Table 3)

1. Less educated:

Among the existing poor in Chinese Taipei, for instance, it is found that 35.74% holds junior high education, 34.8% has elementary education and another 0.84% owns literarily no education at all.

2. Single-headed families, especially those headed by females:

Female-headed families are eight times more vulnerable to be trapped by poverty than that of male-headed families in Chinese Taipei. Among all the poor families, 57.05% is single-headed; of which, 23.19% is divorced whereas another 33.86% is windowed. Park's

Table 4. Female Economic Conditions in Major Countries (2000)

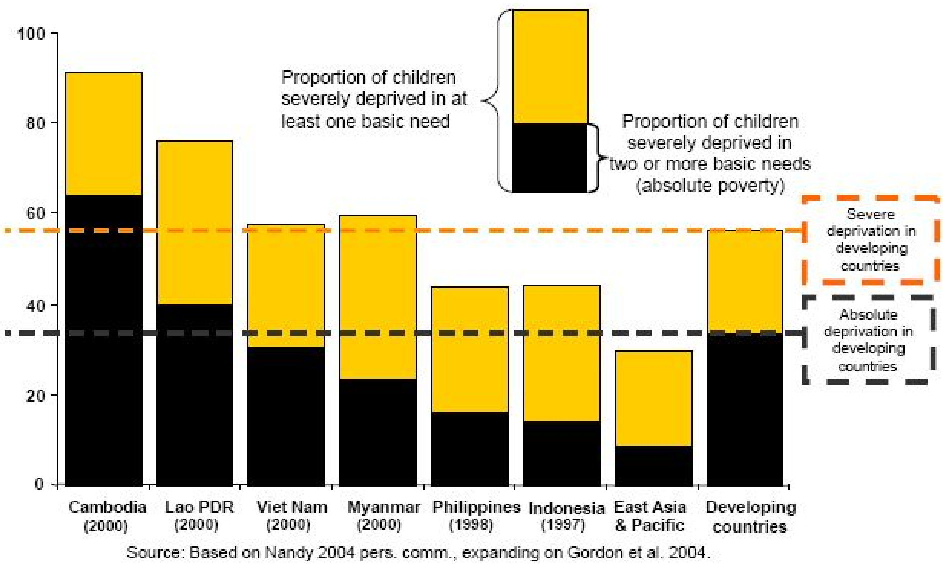
Region	Country	GDP per capita (US dollar)			Female labor participation rate (%)	Male labor participation rate (%)	Managerial female percentage (%)	Female wage as % of male
		Female (a)	Male (b)	(a)/(b) (%)				
Asia	Chinese Taipei	15,100	28,956	52	46	66	15	74
	Japan	16,601	37,345	44	51	67	9	65
	HK	18,635	31,445	59	51	65	25	91
	Singapore	15,433	31,167	50	50	64	23	72
	Korea	10,791	23,884	45	53	70	5	63
	China	3,132	4,773	66	73	86	-	-
Pacific	Australia	20,977	30,449	69	56	77	26	69
North America	US	26,259	42,246	62	59	81	45	95
	Canada	21,456	34,349	62	60	82	35	-
Europe	Norway	23,454	36,510	64	59	84	25	80
	Sweden	19,690	28,961	68	63	89	29	88
	Swiss	19,197	38,550	50	51	66	22	75
	French	18,715	30,022	62	49	76	-	80
	UK	17,931	29,264	61	53	74	33	82
	Germany	16,904	33,653	50	48	69	27	92

Source: Compiled from the Directorate General of Budget, Accounting and Statistics, The Executive Yuan, 2003, *National Statistical Report*, http://www.dgbas.gov.tw study also maintained that "single mothers and older women living alone represent the highest-risk groups among poor women in Korea." Park further illustrated that by 2000, female-headed households made up 18.5% of the total households; of which, 21%(7% for male) can be rated poor. Besides, according to the National Household Consumption Survey conducted in Korea, 56.1% of older women above 65 years of age lived below the minimum living standard.(APEC/SSN Symposium: 2005－19-20) In more advanced countries, on the other hand, lone mother[1)] poverty is not only higher but also far more persistent than average, especially in the US. (Bradbury et. al.:2000) It is generally agreed that the risk of poverty is particularly high for low-paid workers who live on their own. (See Table 4)

3. *Having more children:*

Chinese Taipei data reveals that 70% of the poor has 2 to 3 children. Altogether 89.65% of the poor has more than 2 children; of which, 37.93% has two children and another 32.6% has three children. Fifteen OECD countries' statistics during 1985-1995 showed that the bi-variate correlation between changes in primary income Gini and child poverty rates is +0.691. And every one point increase in Gini raises child poverty by 1.1 points.(Estimated on the basis of 1999 data furnished by Oxley et. al. with OLS regression) (Esping-

Figure 1. Childhood Deprivation and Estimates of Youth Poverty



Source: Karen Moore, 2004, "Chronic, life-course and intergenerational poverty, and South-East Asian youth". www.un.org/esa/socdev/unyin/workshops/moore.pdf

1) According to Esping-Anderson, lone parent households (almost all of which are lone mothers) have grown rapidly and now account for 15-20 per cent of all families with children. For details, please consult Gosta Esping-Anderson, et. al., 2002, *Why We need a New Welfare State*, UK: Oxford University Press, p.36.

Anderson, et. al.: 2002--52) Figure 1 unfolds vividly some pictures of the childhood deprivation and youth poverty in few countries/areas. Targeted at the same issue, Taylor-Gooby's "care responsibilities" arguments on how two life stages－early in family life cycle when care for younger children is needed and at a later life stage when frail elderly are likely to need support may affect working age adults, primarily women. His study indicated that in Europe, for couple households with dependent children, 90% of prime working age(20-49) men are in employment compared with only 57% of women. Among older couple households with dependent(s), employment rates fall to 47% for men and 29% for women.(Taylor-Gooby: 2005-13)

4. Less employed:

Among the poor households, 65% has only one-bread winner and 53.29% is single mother. Compare the highest with the lowest income group in terms of both average person employed and the percentage of unemployed per household, it is found that from 2001 to 2003, there were in average 2.35 and 0.65 person employed and 0.2—2.0 versus 43.1—49.3 unemployed each in the case of Chinese Taipei. Adding the unemployment age group data, it can further be observed that unemployment rate ranks the highest among those between 15-24 (10.85%), nearly three times higher than that of 25-44(3.97%) and 45-65(3.20%). The youth unemployment(15-29) figure for Korea is that of 8% as stated by ILO's report.(Barrett-Reid: 2005) Moreover, as one would expect, poverty declines with the intensity of employment to almost nil among dual-earner families. This confirms the fact that women's employment is becoming more indispensable for any anti-poverty strategy. (Esping-Anderson, et. al.: 2002--43)

5. High percentage of working poor:

The current poor in Chinese Taipei constitute 1.08% of the total population due to rather rigid "poverty line"[2]. Korea data has suggested that over the period from 1997 to 2004, though the unemployment rate remained at 3% or so(ranging from 2.6% to 3.5%), the percentage of the working poor has yet soared from that of 6.8 to 9.3%.(APEC/SSN Symposium: 2005) On the whole, ILO's report(Barrett-Reid: 2005--6) also indicated that there are 2.9%, 11.3%, 17% and 38.1% of population lived at less than US$1 dollar per day in West Asia, South East Asia, East Asia and South Asia respectively as of 2003. Meantime, the percentage for those lived at less than US$2 dollars per day in the same areas ranged from 30.4%, 58.8%, 49.2% to 87.5%.(Barrett-Reid: 2005--9)

2) Chinese Taipei's 'poverty line' went through several changes; the current standard is that any household's annual income is 1.5 or 2.5 times lower than that of the average household income in their constituencies is qualified to apply for NT$3000 to NT$6000 monthly public subsidies.

III. Some Attributes of Socio-economic Disparities: Characteristics & Impacts of Globalization

The growth in socio-economic inequality is trust as a result of a shift of income from wages to capital income(profits and interest) and a growing inequality among wage earners.[3] Both trends can be witnessed by increasing government/employers' power in the labor market through deregulation of industries, a weakening of unions, an erosion of the minimum wage, and increased globalization (trade, investment and immigration). Surely, globalization has not necessarily been the whole story of the rise in inequality, but in its full dimension, it has undoubtedly played a much larger role than conventional wisdom has allowed.(Faux and Mishel: 2000--102-3; Taylor-Gooby: 2005--6)

There is little doubt that globalization is the buzzword of the moment, the most talked-about and perhaps the least understood concept of this new millennium. World Bank (2002－1) summarized globalization as not only the global circulation of goods, services and capital, but also of information, ideas, and people. Anthony Giddens(2000) has once contended that there are four major traits of "globalization"; i. e. : (1) A digital era built upon communication revolution coupled with the invention of "internet"; (2) Global finance developed in accordance with the rise of knowledge-based economy; (3) US seems to be the "only" economic hegemony after the end of Cold War;[4] and (4) The changing status of women worldwide.

If "globalization" is ubiquitous, how people view/react to it then? It perhaps is imperative to deal with some of the globalization's salient characteristics and its impacts on social safety nets from the following perspectives.

1. Economic perspective:

Since the free flow of capital among nations and regions is viewed as one of the salient characteristics of "globalization", one of the major impacts of globalization is that wage will always kept low under the banner of "free trade" and "deregulation". "Cheap labor" of the Third World countries emerge not only as a natural product due to such

3) According to Faux and Mishel, the median workers' hourly wage (inflation-adjusted) in the States was about 3 per cent less in 1998 than in 1979. The median hourly wage for men fell 13 per cent over that period. Meanwhile, productivity grew by 22 per cent. The combination of lower real wages (labor costs) and higher productivity produced the highest corporate profit rates in more than three decades, helping to fuel the stock market boom. For details, please consult Faux and Mishel, "Inequality and the Global Economy", in Will Hutton and Anthony Giddens, (eds.), 2000, Global Capitalism, New York: The New Press, p.102.

4) One of the indicator adopted to assess American hegemony is the fact that both developed and less developed countries have transform their foreign reserves into US dollars (73.3% and 64.3% respectively in 2000) compared to other forms of currencies such as Euro dollars, Japanese Yen and British pounds.

governments' fear of losing FDI(foreign direct investment)but sometimes is caused by the threat such as Clause 301 or anti-dumping accusation. In short, "free trade" does not guarantee "fair trade". Contrarily, "globalization" in the name of free trade often deepens the gap between the rich and the poor countries. One World Bank report documented that while the real income of the "average" person in developing countries has risen rapidly over the past ten years, the number of people in absolute poverty has not declined. Even countries that have benefited from globalization have large pockets of poor people, and in many countries, the divide between the rich and poor is increasing. Of the 2.8 billion people living on less than $2 per day, approximately 1.9 billion people reside in emerging markets. 1.7 billion, or 59% of the world's poor, live in G20 countries.(World Bank: 2002--9-10)

Due to the stress of "free trade", all kinds of "deregulation" have been praised and promoted under globalization. Free trade and internationalization have made the multinational corporations more important than ever.[5] Through the "internet" and/or "digitalization", traditional ways of production have undergone dramatic changes whereby manufacture can not only be separated entirely from the market but sometimes it is even necessary. In other words, now there exists fear that the rise of electronic commerce combined with global financial liberalization will trigger an even greater flow of wealth and profits to the tax-free enclaves such as off-shore banking.

As a matter of fact, economic internationalization has undoubtedly placed increased pressures on the traditional skill and employment structures of most economies. The dismantling of capital exchange controls, the reduction of tariff protections, widespread privatization and the loss of the ability to offset cost disadvantage through devaluation have led to increased cost competition. All these have generally favored an acceleration of technological change and a marked upward shift in the skill structure, heightening the vulnerability of those in low-skilled work.(Esping-Anderson, et. al.: 97-8)Likewise, employers have emphasized higher standard of product quality, downsized their organizations, sought higher degrees of flexibility of working practices and devolved increased responsibilities on work teams while confronted by increased economic internationalization.(Esping-Anderson, et. al.: 104) Taylor-Gooby has meticulously summarized

5) The importance of multinational corporations can be illustrated by the sheer fact that the numbers are growing very fast. In 1990, there were 3,000 multinational corporations, they were more than doubled by 1970 to that of 7,000; the numbers went up to 30,000 and 63,000 by 1990 and 2000 respectively. Among the 63,000 multinational corporations in the world, the 1,000 largest accounts for 80% of world industrial output. The Fortune Global 500 alone had more than $45 trillion in assets, $14 trillion in revenues, $667 billion in profits, and about 47 million employees in 2000. Total revenues for the Global 500 increased 10.8% over the 1999 while profits climbed 20.4%. However, notwithstanding of their rapid growth in the past two decades, multinational businesses probably still reach less than half of the world's population. Globalization is still a very partial phenomenon, and many still lack the means or the freedom to enjoy the choices many of us are taking for granted. For details, please consult Medard Gabel and Henry Bruner, 2003, Global Inc.: an Atlas of the Multinational Corporation, New York: The New Press.

the same situation in Europe as: "…economic globalization and its impact on the capacity of national governments to control the relevant aspects of their economies, and the movement from primarily industrial to post-industrial economic systems in the most developed countries affecting labor markets with associated shifts in patterns of family lif e…"(Taylor-Gooby: 2005-6) Therefore, even in advanced welfare states of Europe, the view that social expenditure is more properly seen as a burden on a wealth-producing economy has gained ground and now predominates.

When facing the widening disparity between the rich and poor, nevertheless, thank to the Social Safety Nets that most developed societies were able to provide to their residents thus keep the contradiction between the two groups within controllable realm.(Hutton and Giddens: 2000-100) Yet, in most developing societies where none or very unpromising social security is in existence, tensions among the state, unions as well as the labors can therefore be fermented quite easily. Non-skilled and/or semi-skilled labors are likely to be marginalized, leave the state's sustainability at stake should such disputes can not be settled. This is perhaps why that the World Bank report stressed on societies everywhere will gain from poverty reduction, especially in a globalizing world, not just because of the moral imperative, but because of the negative externalities associated with poverty—conflict and violence, the spread of communicable diseases, illegal immigration and pressures on the environment. (World Bank: 2002-11)

2. *Political perspective:*

National political boundaries have become ambiguous due to globalization. The influence of national sovereignty Vis a Vis international political force has thus become weaker and weaker, especially for less developed countries. In order to live up with the trend, most countries have to join in international organizations of some kind. Interestingly enough is that when people found out that international hegemony is almost everywhere and over everything where the state seems not powerful enough to react, they then tried to form all kinds of NGOs and/or Non profit organizations (NPOs) to counteract with such developments.

The possibility of decentralization and recentralization processes of the productivity, technology and products serves as one other characteristic of international division of labor. In other words, capital as well as knowledge flows over different spaces determine where the "core" and "periphery" countries/regions will be.

Another issue related to free trade is the "export of pollution". Again, under the banner of "free trade", developed societies often export those polluted industries to the Third world countries. Scholar like Kuttner(2000) has proposed that all multinationals ought to deposit in the Central Bank of the designated invested country a fix amount of money to resolve such unequal trade problems. At the UN Social Summit+5 held in Geneva in June 2000, 160 governments agreed to conduct a rigorous analysis on new and innovative sources of funding for social development, including a currency transaction tax. Call for a Tobin Tax has therefore been signed. However, it is always easy for international organizations to monitor, so to speak, such practices through measures such as the interest rate, tax rate and foreign exchange rate, etc. One widely used tool nowadays is that of "Intellectual Property Rights". In short, whether the fruits of "globalization" can be equally shared is not only a "technical" issue but involves even more "humanitarian" concerns.

Due to the declining state sovereignty in an ever globalizing era, there is growing awareness that regional alliance shall become more important than ever. However, the alliance that thought to be workable is the ones signed among countries of similar socio-economic-political status. Otherwise, the "core" countries are very likely adopting measures such as forcing the "periphery" countries to open their markets for cigarette, wine, agricultural products, communication networks, deflating money and/or even buying weapons.

3. Social perspective:

International migration appears concomitantly with the international capital flow and investment. It is not uncommon to find out that two or more members of a family from developing countries have become migrated workers overseas. For instance, the male may be employed as foreign construction worker and the female may be hired as domestic maid or care worker abroad. Several social impacts can result from such developments. Aside from the fact that their children may be taken care of by the grandparents while the parents are seeking employment overseas; life-long employment becomes almost impossible since work mobility is higher than before, thus "individualism" is likely substituting for national "identity".

When capital flows to other countries, one social consequence that many emigrating countries have experienced is the growing number of unemployment especially within the traditional sector. Workers engaging in labor-intensive, non- and/or semi-skilled jobs are likely the ones suffer the most. More specifically, middle and old-age workers as well as deprived groups such as indigenous people, new immigrants, lone mothers and the youth, among others, are the most vulnerable groups. Because in the midst of knowledge economy, either age or other constraints tend to prevent these groups from keeping abreast with the kinds of competition dictated by the digital epoch. Many of them have to either entering into informal sector or falling into poverty trap thus demand some kind of assistance delivered by the public sector.

For lone mothers with small kids, there lacks either part-time and/or flexible working hours arrangements in many of the developing societies.(See Tables 5 & 5-1) They often

Table 5. Female part-time Employment

Country	Unemployment (%)		Part-time as % of total employment				Female as % of Part-time employment	
	2000		1990~1993		1996~1998		1990~1993	1996~1998
	female	male	female	male	female	male		
Chinese Taipei	2.4	3.4	7	4	7	8	51	37
Korea	3.3	4.6	6	3	8	3	59	62
Japan	4.5	4.9	33	9	36	12	71	68
Australia	6.6	6.7	36	11	38	14	69	67
France	11.9	8.5	22	4	25	6	80	79
Netherlands	4.2	2.6	53	13	55	11	70	78
US	4.1	3.9	20	8	19	8	68	70
Germany	8.3	7.6	25	2	30	4	89	86
UK	4.8	6.1	40	5	41	8	85	80

Source: Rou, Tze-chien, et. al. April 2003, ***Gender Statistics of Chinese Taipei and International Comparison of Women Status***, Statistics Papers and Monographs Series, Chinese Taipei: Directorate General of Budget, Account and Statistics, Executive Yuan, p. 46.
http://www.dgbas.gov.tw/lp.asp?ctNode=3260&CtUnit=370&BaseDSD=7

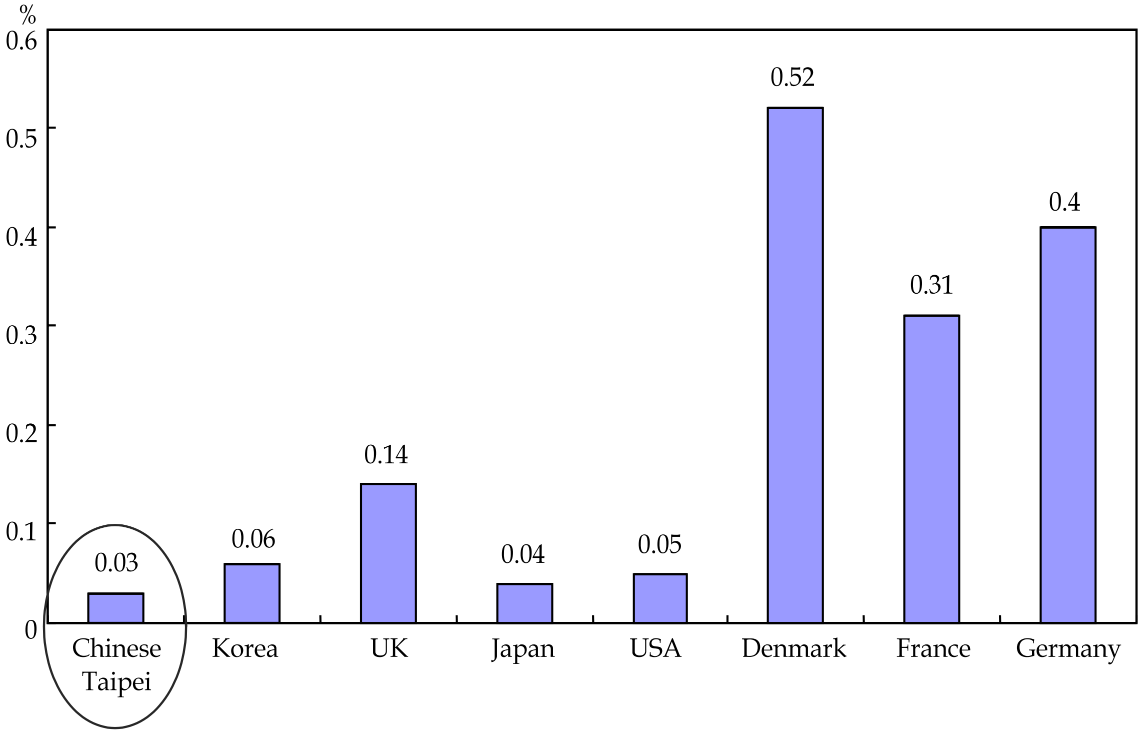
Table 5-1. Part-Time Worker in Proportion to Total Employment (%)

Year	Chinese Taipei	Japan	US	Canada	UK	Germany	France	Italy	Sweden	Korea	Australia	New Zealand
1998	4.3	23.6	13.4	18.9	23	16.6	14.8	11.2	13.5	6.8	25.9	22.8
1999	5	24.1	13.3	18.5	22.9	17.1	14.7	11.8	14.5	7.8	26.1	23
2000	4.5	23.1	12.6	18.1	23	17.6	14.2	12.2	14	7	26.2	22.3
2001	6.4	24.9	12.8	18.1	22.7	18.3	13.8	12.2	13.9	7.3	27.2	22.4
2002	6.4	25.1	13.1	18.7	23	18.8	13.7	11.9	13.8	7.6	27.5	22.6
2003	6.2	26	13.2	18.8	23.3	19.6	12.9	12	14.1	7.7	27.9	22.3

encounter difficulties in accessing vocational training, however limited investment it may be, (Figure 2 explicated that a relatively low expenditure has been put into public vocational training)due to inadequate day-care services or basic human capital. Even with double income families, many belong to the category of "working poor"; the likelihood of their children to stay in "poverty trap" is fairly high which too deserves public policy attention.

Under knowledge economy era, labor market has undergone drastic changes. The kind of manpower required across the board in the future will be predominately technologically oriented which may lead to an even clear-cut dual labor market not only by industry but also by gender/age. Wage differentials between the top and the bottom within the same industry are expecting to be widened, so does among different sexes. (most women up to now still entangled with low-pay service related jobs.) Again, women, especially lone mother with small kids, new immigrants, indigenous people and elderly are most vulnerable groups for short of both human capital and social capital in an ever competitive globalize world.

Figure 2. Relatively Low Expenditures into Public Vocational Training
Chinese Taipei's Public Vocational Training Expenditures,
Composing 3/00000 of her GDP, are relatively low compare to other countries



IV. New Challenges for Social Safety Nets Confronting Less Developed Countries(LDCs)

Asia-Pacific region though is the fastest growing region in the world; it is confronting several key challenges in terms of mapping out their social safety nets; namely,

1. Low fertility rate:

Both Korea and Chinese Taipei, for instance, are experiencing fairly low fertility by world standard. Low fertility rate implies not only less demand on education at all levels but also less future labor supply and heavier intergenerational burden on welfare especially pension thus deserve keen attention.

In many parts of the Asia-Pacific region, late marriage and consequently late birth, increasing female labor participation and heavy child care and rearing burden are believed to be few factors contributing to the growing low fertility rate.(Chen: 2005) Southern European data too demonstrated that an almost complete lack of affordable child- and eldercare, unusually limited part-time options, a much undeveloped service labor market, pervasive job precariousness, and also fairly pronounced gender wage inequalities have led to lower fertility. (Esping-Anderson, et. al.: 2002-- 80)

Given that almost all available evidence suggests that marriage and birth decisions are increasingly woven into a simultaneous pursuit of education and gaining a foothold in the labor market,(Esping-Anderson, et. al.: 2002--81) a ‘women-friendly’ policy package that optimizes not only women’s ability to work and have children, but also lessens segregation therefore becomes paramount.

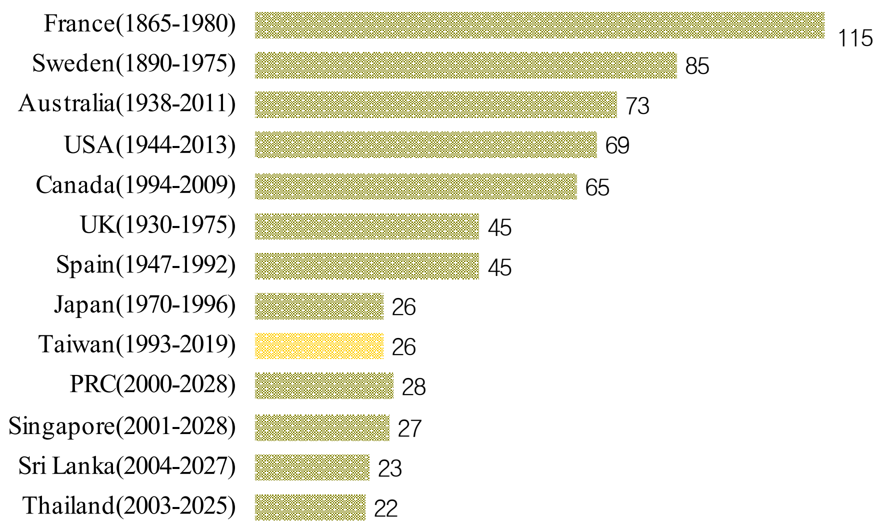
2. *Growing ageing:*

Japan, Korea, Chinese Taipei, and even big country like China in APEC are encountering rapid ageing. In the case of Japan, nearly 1/4 of her population is above 65 years of age whereas Chinese Taipei and Korea follow her step closely. China has recently been described as a country where “before it gets rich, it grows old”. Figure 3 portrays so clearly that, in average, it takes less than 30 years for these countries to double their ageing population compared to an average of 70-80 years required by their western counterparts to reach the same state. Ageing population certainly will create new demands on pension, and when coupled with low fertility, it implies heavier economic burden for the future generation. Growing ageing is also likely to bring about demands on long-term care. Issues related to the retirement age, effective utilization of elder manpower, and proper living arrangements for the elderly, etc. could all form important policy areas need to be seriously tackled upon.(Chen: 2005)

The main policy challenge posed by population ageing, as elucidated so clearly by Esping-Anderson, et. al. 2002) is that it involves basically neither demographic nor

Figure 3. The Comparison of Aging

Years to reach from 7% to 14% for those aged 65+/total population



Source: CEPD, 2002.

economic but distributional considerations. In other words, the crux of the matter has something to do with how to manage the transition so as to satisfy principles of intergenerational equity and intra-generational justice while also contributing to the further democratization of retirement among men and women. The aim of sound ageing policy, in essence, regards to the management of the transition to achieve intergenerational fairness, intra-generational solidarity and gender equality while at the same time creating conditions for a strong economy and sound public fairness. The real challenge therefore lies upon whether it is possible to have all of these good things at the same time? (Esping-Anderson, et. al.: 2002--134-5)

3. *Family Structural Change:*

Due to value premises changes, growing divorce rate can be witnessed among APEC member economies, single-headed families, especially women headed families are thus increased. Singles as well as co-habitation also increased together with rising trend of cross-cultural marriages in light of globalization. All these have created new sets of demands on social safety nets.

On this score, Nordic inheritance with an extraordinary social investment strategy commitment to invest directly in children and families has been widely appraised as a centerpiece of any policy for social inclusion. (Esping-Anderson, et. al.: 2002--27) In other words, a mother-employment strategy based on subsidized childcare and the usual 'women-friendly' welfare package would be taken as very, though not fully, effective. Complementary policy as to raise family transfers to the rate necessary to bring families above the poverty line is thought equally important. (Esping-Anderson, et. al.: 2002--60)

4. *Financial Viability:*

Given the aforementioned, almost all countries in APEC have had one way or the other provide their citizens with some types of health care, retirement benefits, social assistance and/or social services.(See Table 6 & 7) Data also shows that social welfare expenditures as percentage of GDP have gone up in many countries.(See Table 8) However, the speed of furnishing welfare provisions seems to be always lagging behind the ever-rising expectations and demands. On the one hand, this is due to rapid demographic and value premises changes, and on the other hand, owing to less and less viable fiscal capabilities. Take Chinese Taipei for example, it is anticipated that social security expenses will increase NT$3-4 thousand billion ten years from now due to accelerating ageing population. In fact, in many parts of the Asia-Pacific region, tax increase is next to impossible if not a political taboo. Table 9 compares the tax rate for some APEC economies with that of OECD countries. It is fully recognized that unless some type of tax reform could be put forth, generous welfare would not be possible.

Notwithstanding the income distribution effects brought by the government transfer payments,[6)] the general public is nevertheless often skeptical with regard to tax reform, especially when tax equity issue is involved. In other words, the major concern related to tax reform relies upon who, in the final analysis, is going to pay more--the poor or the

Table 6. Types of Social Security Program of 21 Economies in APEC

Region	Country/area \ Item	Old age, disability, survivors	Sickness and maternity: Cash benefits for both	Sickness and maternity: Cash benefits plus medical care	Work injury	Unemployment	Family allowances
North America	US	X	X	X	X	X	X
	Canada	X	X	X	X	X	X
Oceania	Australia	X	X	X	X	X	X
	New Zealand	X	X	X	X	X	X
	Papua New Guinea	X	B	D	X	B	B
East Asia	China	X	X	X	X	X	X
	Hong Kong	X	X	X	X	X	X
	Chinese Taipei	X	X	X	X	X	B
	Korea	X	B	D	X	X	B
	Japan	X	X	X	X	X	X
	Russia	X	X	X	X	X	X
South-East Asia	Singapore	X	X	X	X	B	B
	Philippines	X	X	X	X	B	B
	Vietnam	X	X	X	X	B	B
	Thailand	X	X	X	X	X	X
	Indonesia	X	B	D	X	B	B
	Malaysia	X	B	D	X	B	B
	Brunei	X	B	D	X	B	B
Central-South American	Mexico	X	X	X	X	X	X
	Peru	X	X	X	X	B	B
	Chile	X	X	X	X	X	X

Note: B. has no program or information is not available.
D. Medical care only.

Source: Social Security Administration, Office of Policy, Office of Research, Evaluation, and Statistics, 2005, *Social Security Programs Throughout the World: Asia and the Pacific, 2004,* pp.16-19. *Social Security Programs Throughout the World: The Americas, 2005,* pp.16-19. *Social Security Programs throughout the World: Europe, 2004,* pp. 16-19.

6) Data of Chinese Taipei indicates that although the impacts of government transfer on income disparity has become smaller since 2003, income disparity has indeed been reduced 0.81 to 0.97 times during 1996--1999; it has been further reduced 1.02 to 1.31 times during 2000--2003.

rich? Taking Chinese Taipei for example, in 2003, among the richest 40 persons, 8 paid no tax at all while another 15 who have paid tax with less than 1% of their income; altogether there are only 5 to 6 of them paid tax normally. Aside from the down-sliding government accountability, waste due to inadequate public policies serve as other reasons why the ordinary people are disenchanted with tax reform. For instance, allocation of US$6,600 billion to the controversial weapons purchase from big power; stop building the already

Table 7. Types of Mandatory Systems for Retirement Income of 21 Economies in APEC

Region	Item / Country/area	Flat-Rate	Earnings-related	Means-tested	Flat-rate universal	Provident funds	Occupational retirement schemes	Individual retirement schemes
North America	US		X	X				
	Canada		X		X[b]			
Oceania	Australia			X			X	
	New Zealand			X	X			
	Papua New Guinea						X	
East Asia	China	X						X
	Hong Kong			X	X		X	
	Chinese Taipei		X					
	Korea		X					
	Japan	X	X					
	Russia	X[b]	X[b]		X			X[e]
South-East Asia	Singapore					X		
	Philippines	X[a]						
	Vietnam		X					
	Thailand		X					
	Indonesia					X		
	Malaysia					X		
	Brunei				X	X		
Central-South American	Mexico		X[c]					X[d]
	Peru		X					X[d]
	Chile		X[c]	X				X[d]

Note: a. the benefit formula contains a flat-rate component as well as an element based on years of coverage.

b. The universal pension is increased by an income-tested supplement. (Canada)

b. The benefit formula contains a flat-rate component as well as an earnings-related element. (Russia)

c. The earnings-related social insurance system is closed to new entrants and is being phased out.

d. The government provides a guaranteed minimum pension.

e. The benefit from the individual account is to be paid beginning 2013.

Source: Same as Table 2.

Table 8. Tax Rate by Country/Area (1995-2005)

Country/Area / Social Security / Year	Chinese Taipei		USA		Japan		Germany		France		UK		Korea		Singapore	
	Ex	In	Ex	In	Ex	In	Ex	In	Ex	In	Ex	In	Ex	In	Ex	In
1995	18.3	21.3	20.9	27.9	17.7	27.8	23.3	38.2	25.3	43.9	28.8	35.0	18.1	19.4	16.5	16.5
2000	13.5	17.5	23.0	29.9	17.2	27.1	23.0	37.8	29.0	45.2	31.1	37.4	19.6	23.6	15.8	15.8
2001	13.3	17.5	22.0	28.9	17.1	27.4	22.2	36.8	28.7	44.9	30.9	37.2	19.7	24.1	16.3	16.3
2002	12.6	16.8	19.6	26.4	15.9	25.8	21.5	36.0	27.7	44.0	29.7	35.8	19.8	24.4	13.6	13.6
2003	12.7	17.0	18.8	…	15.6	…	21.1	…	27.0	…	29.0	…	20.4	…	12.9	12.9
2004	13.6	…	…	…	…	…	…	…	…	…	…	…	…	…	12.6	12.6
2005	14.1	…	…	…	…	…	…	…	…	…	…	…	…	…	14.5	…

Note: (1) Ex = Social Security Excluded. In =Social Security Included.
(2) Social Security of Chinese Taipei implies social insurance expenses by families and enterprises. Data for 2000 covers periods from July 1999 to 2000.
Source: Directorate General of Budget, Accounting and Statistics, the Executive Yuan, Chinese Taipei.

contracted out "nuclear power plant" which cost extra NT$1,800 billion to compensate GE for 110 days of construction interruption were just few cases in point.

5. Party Politics:

With the tide of democratization and increasing party politics taken place in many of the APEC economies, social safety nets sometimes have been blamed for their taking away too much slices from the country's national budget. In the meantime, many politicians know too well on how to manipulate the social safety nets to woe their electorates. In other words, social safety nets play both roles as scapegoat and/or tools for politicians in the course of political competition. Again, this involves not merely the "government

Table 9. Percentage of Social Welfare Expenditures/GDP

Year	Chinese Taipei	USA	Japan	Germany	France	UK	South Korea	Singapore
1991	4.5	10.8	12.1	25.0	27.1	19.6	2.5	1.8
1996	5.8	11.6	14.7	28.4	29.2	22.3	2.7	3.4
2000	5.6	10.8	17.0	28.1	28.3	21.1	...	1.6
2001	6.1	11.2	18.0	28.2	28.3	23.7	...	3.9
2002	5.1	11.9	18.4	28.8	29.0	23.8	...	1.8
2003	5.3	12.1	...	29.3	...	24.7	...	...

Note : (1) Data for 2000 Chinese Taipei depicts one and half years from July 1999 to 2000.
(2) Data for USA refers to federal government expenditures only.
Source : Directorate General of Budget, Accounting and Statistics, Executive Yuan, Chinese Taipei.

accountability" issue but is very likely to boost up financial burden of the state for none of the political parties would like to be blamed for lacking enthusiasm and/or sympathy toward taking good care of their voters' needs.

V. Concluding remarks: What will be the Next?

"The promotion of high levels of employment, the raising of the standard of living and working conditions, adequate social protection, the social dialogue, the development of human capital and the fight against social exclusion." which has once incorporated into the Treaty of the European Union and fully explored by scholar such as Esping-Anderson(2002: 206) listed common social policy ambitions which reflect the convergence in objectives and ambitions of shared aspirations and perhaps also more precipitously common concern with the new risks of social polarization everywhere, including Asia-Pacific region.

In fact, it has become clearer that integration into global economy has created losers as well as winners, and thus demands even stronger social safety nets to cushion the impact of the former. Ironically, in most instances, opening up to the global market-place has been associated with a shredding of the social safety net, not a strengthening of it. For instance, the claim that domestic systems of income maintenance, health, education, and so on, cannot be afforded in the environment of global competition is a theme heard in the capitals of poor and rich nations alike. After reviewing the recent European welfare state reform, Taylor-Gooby's insightful observation on "…one possibility is that, as targeted provision, directed at securing a social safety-net through access to paid work becomes more significant, this approach could lead to a stricter social division of welfare: non-contributors become non-recipients, and the role of the welfare state in developed countries shifts from providing benefits for all citizens to meeting the needs of defined groups in a way conditioned by an imperative of national competitiveness." (Taylor-Gooby: 2005--27) perhaps served as the best footnote to this trend.

Besides, countless studies detailing the social impact of structural adjustment and the findings are also depressingly similar. Oftentimes, it is those with the least suffer the most. So-called 'free-trade' agreements are really protectionist for global investors, while leaving workers, farmers and small-business people to the mercies of a rigged market.(Hutton and Giddens: 2000--110) Even in the States, globalization has created pressure to reduce the safety net of tax and transfer program that would counteract the unequal effects of globalization on incomes. It is said that this has been a political phenomenon rather than a necessary economic effect of globalization. For US certainly can afford a more generous social safety-net than it has. But globalization has strengthened the bargaining position and, therefore, the political power of capital over labor. Additionally, by insisting on adopting more 'flexible' labor market policies, world organizations such as IMF seem to recommend social spending reduction and undercutting the political power of labor unions.(Hutton and Giddens: 2000--108) Worse still, many foreign-debts loaded developing countries, in order to boost up exports and maintain their obligations to creditors have tended to divert money away from matters like healthcare, education and aid to small-scale farmers.

Be that as it may, experiences from advanced welfare states have demonstrated that the capacity to translate the aforementioned crisis (or 'new social risks' as coined by Taylor-Gooby) into bounded policy innovation depends on political forces and institutional factors. (Esping-Anderson, et. al.:2002--188) Past experiences also suggested that future social safety nets ought to address responsibility-sensitive egalitarianism on the one hand and protecting the vulnerable on the other. (Esping-Anderson, et. al.:2002--xvi) Within the same rein, shifting to private systems under budgetary pressure has proven as no solution in itself. It is held by scholars and policy makers alike that in the future, we do not require less government, but a different kind of government, capable of regulating the private sector. (Esping-Anderson, et. al.:2002--xxii) Further, if becoming the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and great social cohesion is set as the utmost goal, when discussing what future government should or should not do, we need to simultaneously consider policies of social safety nets' consequences for markets and for families and therefore a "life-course approach" proposed by Esping-Anderson and others is particularly worth pondering.(Esping-Anderson, et. al.:2002--25)

In Asia-Pacific region, some impacts and problems of globalization on social safety nets confronted so far are global in nature; others are perhaps unique to certain country. The latter refers to situations such as the massive peasant workers in big cities of China due to long-standing dual structure of the country; foreign brides and foreign labors, mostly new migrants from Mainland China and the South-east Asia to Chinese Taipei, etc.

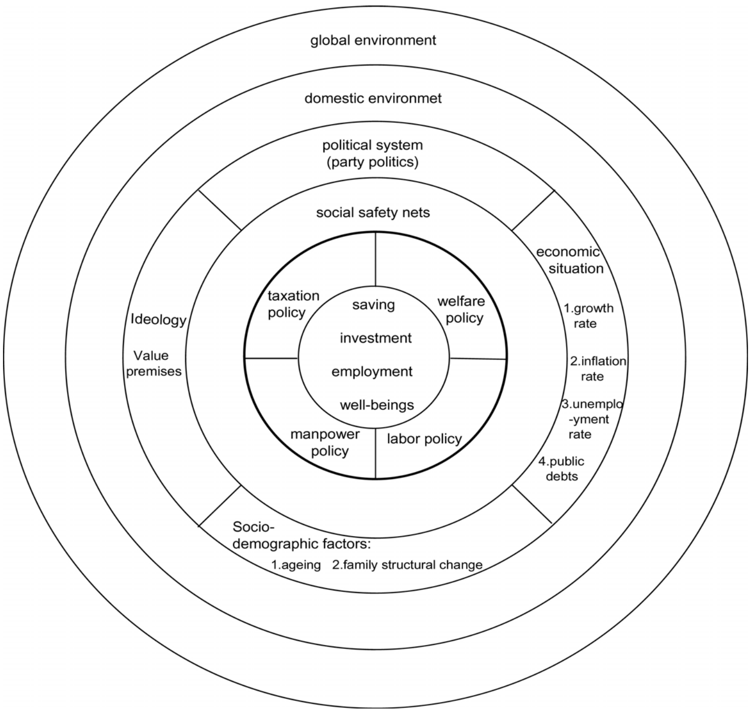
In addition, given the fact that factors impinge upon income distribution are many-folded, including household structure such as number of household, household size, and disadvantageous families(female-headed, elderly, disabled, indigenous group, and low-income group); human capital such as educational reform, vocational training and employment services; economic structure such as globalization and the coming of knowledge economy era; and social welfare provisions such as employment allowances, social relief, elderly economic security and health care, etc. Therefore, in terms of both short- and long- term strategy, a framework combines both economic development promotion addressing industrial structural readjustment, improvement of investment environment and job opportunity creation and adequate social safety nets establishment seems to be inevitable. For the best strategy of protecting income security, aside from furnishing transitional measures to the disadvantageous groups during hardship period, is to ensure job opportunities for the disadvantageous group plus increasing educational investment for them in order to enhance their social mobility.(See Figure 4)

Given what have been analyzed in the paper, we may perhaps conclude by proposing that a comprehensive approach which blend welfare policy, labor policy as well as taxation policy together is paramount for any of the APEC economies that care to solve the disparity problem under an ever globalize world. (See Figure 5)

Figure 4. An Integrated Approach to Economic & Social Development

Source: Chen, Hsiao-hung Nancy, 2005, APEC/SSN. (PPP)

Figure 5. A Comprehensive Model of Social Safety Nets: A Blend of Social Welfare, Labor & Taxation Policies



Source: Compiled by the author.

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Appendix 1. Basic Socio-Economic Indicators of 21 Economies in APEC

Region	Country/area \ Indicator	Total Population (Million) 2005	Economic growth rate 2005 (%)	GDP Per Capita (US$) 2005	Birth Rate 2005 (%0)	Female Labor participation rate 2004 (%)	Total % of 65 & above 2004 (%)	Industrial Structure (%) Primary Sector	Secondary Sector	Tertiary Sector	Unemployment rate (%)
North America	US	296.4	3.5	42,101	14.14	59.2	12.3	0.7 (05)	22.9 (05)	76.4 (05)	6.0 (03)
	Canada	32.2	2.9	34,273	10.84	62.1	13.1	2.8 (03)	22.4 (03)	74.7 (03)	6.4 (05)
Oceania	Australia	20.3	2.5	34,714	12.26	55.8	12..3	3.9 (03)	21.0 (03)	75 (03)	5.1 (05)
	New Zealand	4.1	2.2	26,441	14.08	59	11.7	10 (95)	25 (95)	65 (95)	3.9 (05)
	Papua New Guinea	5.9	3.0	666	29.95	N/A	2.4	85	N/A	N/A	Up to 80 in urban areas (05)
East Asia	China	1,307.4	9.9	1,703	13.14	N/A	6.9	46.9 (04)	22.5 (04)	30.6 (04)	3.93 (04)
	Hong Kong	6.9	7.3	25,444	7.23	52.9	10.6	0.2 (03)	17.2 (03)	82.5 (03)	5.8 (05)
	Chinese Taipei	22.6	4.1	15,120	12.64	47.7	9.4	6.6 (04)	35.2 (04)	58.2 (04)	4.13 (04)
	Korea	48.5	4.0	18,320	10.08	49.8	7.1	8.8 (03)	27.6 (03)	63.6 (03)	3.5 (05)
	Japan	127.5	2.7	35,787	7.725	48.3	17.2	0.43 (05)	27.53 (05)	72.05 (05)	4.43 (05)
	Russia	143.4	6.4	5,369	9.8	46.4	12.5	10 (04)	21.4 (04)	68.3 (04)	7.6 (05)
South-East Asia	Singapore	4.3	6.4	26,835	10.0	54.2	7.2	0.2 (01)	24.1 (01)	75.6 (01)	3.4 (05)
	Philippines	87.9	5.1	1,159	25.31	50.2	3.5	36 (04)	16 (04)	48 (04)	12.2 (05)
	Vietnam	83.8	7.5	612	17.07	49.(03)	5.3	56.8 (05)	37 (05)	6.2 (05)	5.5 (05)
	Thailand	65.5	4.4	2.577	15.7	65.	5.2	44.9 (03)	19.7 (03)	35.4 (03)	1.4 (05)
	Indonesia	242	5.6	1,259	20.71	46.3 (03)	4.8	44.3 (03)	18.8 (03)	36.9 (03)	10.9 (05)
	Malaysia	25.9	5.3	5,040	23.07	46.3 (03)	4.1	14.3 (03)	32 (03)	53.7 (03)	3.6 (05)
	Brunei	0.4	1.6	15,764	19.01	N/A	3.2	2.9 (03)	61.1 (03)	36 (03)	4.8 (04)
Central-South American	Mexico	106.2	3.0	7.298	21.01	40.3	5.3	18.1 (01)	25.9 (01)	55.6 (01)	3.6 (05)
	Peru	27.9	6.7	2,812	20.87	50	5.3	9 (01)	18 (01)	73 (01)	8.7 (05)
	Chile	15.5	6.3	7,214	15.44	37.8	8.1	13.6 (03)	23.4 (03)	63 (03)	8 (05)

Appendix 1. Continued

Region	Indicator / Country /area	% of college graduates to total population	Illiteracy rate (%)	Life expectancy (years) 2004		Average tax rate 2004 (%)	Gini coefficiency	Political system[1]	Social welfare expenditures as % of GDP	Youth unemployment 2004 (%)
				Male	Female					
North America	US	38.4 (03)	1	75.2	80.6	29.6	0.41 (04)	Republic	14.73 (01)	17
	Canada	44 (03)	1	78.2	83.1	32.3	0.33 (98)	Democracy	17.81 (01)	18.1
Oceania	Australia	31.3 (03)	1	76.4	82.0	28.6	0.35 (92)	Republic	18 (01)	9.3
	New Zealand	30.9 (03)	1	75.3	80.7	20.7	0.36 (97)	Democracy	18.53 (01)	12.6
	Papua New Guinea		35.4	56.8	58.7		0.51 (96)	Constitutional monarchy		
East Asia	China	5.71 (05)	9.1	69.1	73.5		0.44 (02)	Communist		N/A
	Hong Kong		6.5	77.3	82.8		0.43 (96)	Limited Democracy		26.2
	Chinese Taipei	24.6 (04)	3.9	74.3	80.0		0.338 (04)	Democracy		13
	Korea	29.5 (03)	2.1	71.8	79.1	16.6	0.35 (00)	Republic	6.12 (01)	13.4
	Japan	37.4 (03)	1	77.8	85.0	26.6	0.38 (00)	Parliamentary government	16.89 (01)	11.7
	Russia		1	60	72.5		0.40 (02)	Republic		
South-East Asia	Singapore		7.5	75.9	80.3		0.48 (00)	Republic	12.42 (01)	
	Philippines		7.4	68.0	72.0		0.46 (03)	Republic	4.66 (03)	8.2
	Vietnam		9.7	66.9	71.6		0.36 (98)	Communist	N/A	
	Thailand		7.4	67.9	73.8		0.51 (02)	Constitutional monarchy	12.16 (03)	5.7
	Indonesia		12.1	65.3	69.3		0.34 (02)	Republic	N/A	
	Malaysia		11.3	70.6	75.5		0.49 (97)	Constitutional monarchy	5.32 (03)	
	Brunei	N/A	6.1	74.2	78.9	N/A	N/A	Constitutional monarchy	N/A	N/A
Central-South American	Mexico	15.4 (03)	7.8	73.7	78.6	15.4	0.54 (00)	Republic	5.10 (01)	12.8
	Peru		12.3	68.7	73.9		0.49 (00)	constitutional republic		23.3
	Chile		3.8	75.5	81.5		0.57 (00)	Republic		20.8

Note[1]: The world fact book definite the major governmental terms as follows:

Constitutional monarchy - a system of government in which a monarch is guided by a constitution whereby his/her rights, duties, and responsibilities are spelled out in written law or by custom.

Communism - a system of government in which the state plans and controls the economy and a single - often authoritarian - party holds power; state controls are imposed with the elimination of private ownership of property or capital while claiming to make progress toward a higher social order in which all goods are equally shared by the people (i.e., a classless society).

Democratic republic - a state in which the supreme power rests in the body of citizens entitled to vote for officers and representatives responsible to them.

Democracy - a form of government in which the supreme power is retained by the people, but which is usually exercised indirectly through a system of representation and delegated authority periodically renewed.

Parliamentary government - a government in which members of an executive branch (the cabinet and its leader - a prime minister, premier, or chancellor) are nominated to their positions by a legislature or parliament, and are directly responsible to it; this type of government can be dissolved at will by the parliament (legislature) by means of a no confidence vote or the leader of the cabinet may dissolve the parliament if it can no longer function.

Republic - a representative democracy in which the people elected deputies (representatives), not the people themselves, vote on legislation.

Note[2]: Calculated by the author.

Youth age: US: 16 -19 years

Peru: 14-19 year

Others: 15-19 year

Source: Compiled by the author from

(1) Statistical website of 21 economies.
(2) SSPTW: Asia and the Pacific, Europe, the Americas, 2004, 2005.
(3) CIA: The World Fact book, 2006, http://www.cia.gov/cia/publications/factbook/fields/2172.html
(4) World Tax Payer Associations, http://www.worldtaxpayers.org/statisti.htm
(5) ILO, http://laborsta.ilo.org/
(6) OECD, http://www.oecd.org/
(7) Asian development bank http://adb.org/

Session 2: Case Studies in Socio-Economic Disparity of APEC Economies (Backgrounds, Major Factors and Policy Experiences)

Presentations

Cheonsik Woo, Senior Fellow, KDI, Korea

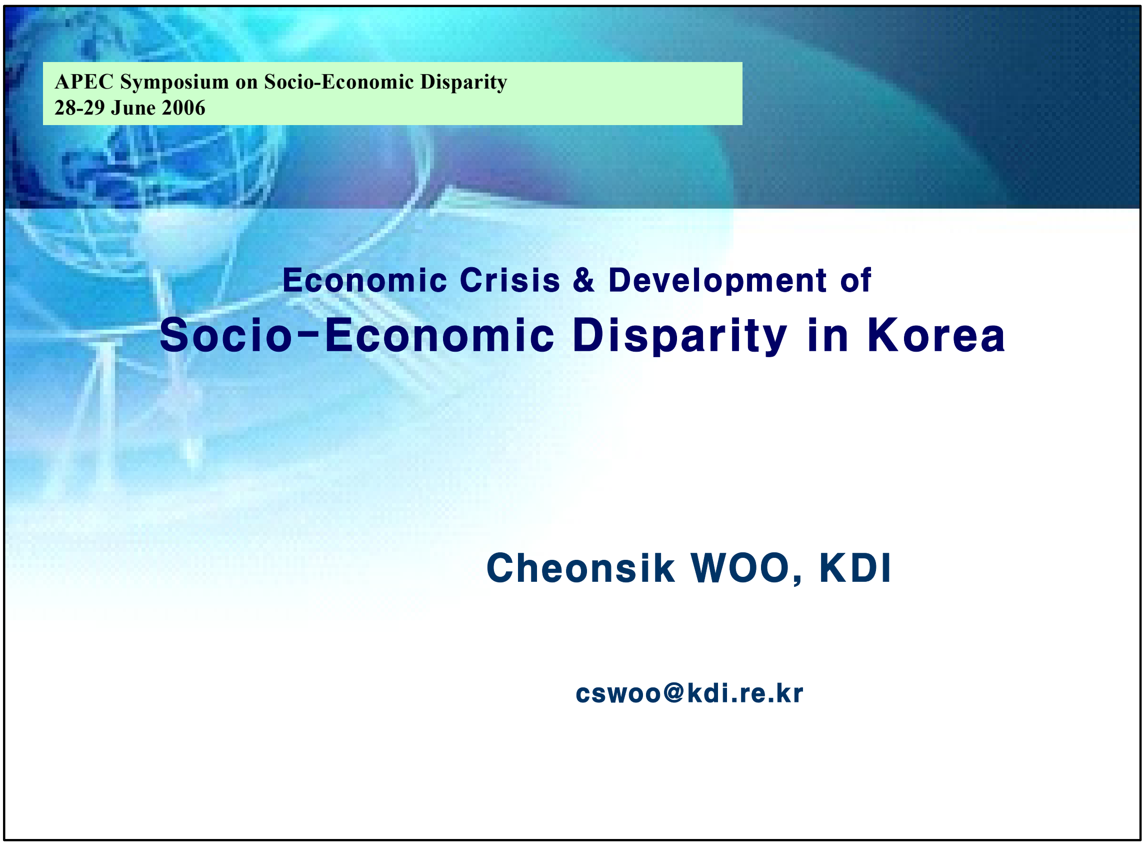
Hernan Gutierrez B., Minister Counselor for Economic and Commercial Affairs, Economic and Commercial Department, Embassy of the Republic of Chile in the Republic of Korea

ZHANG Yali and LIU Yutong, Ministry of Labour and Social Security, People's Republic of China

Nobutaka Tanimoto, Deputy Director for Economic Assessment and Policy Analysis, Cabinet Office, Japan

Economic Crisis & Development of Socio-Economic Disparity in Korea

Cheonsik Woo
Senior Fellow, KDI, The Republic of Korea



I. KBE and the Korean Economy: Background Viewpoint and Economic Outlook for 2006

II. Globalization and Structural Change in Korea

1. Changing Export Structure of China and Korea
2. The Role of Korea's FDI in China in Promoting Bilateral Trade
3. Structural Change in Investment Pattern
4. Impacts on Labor Market and Income Distribution
5. Trend of Service sector

III. Outlook on Potential Growth and Policy Issues

1. Outlook on Mid-to Long-term Potential Growth
2. Policy Focus

I. The Korean Economy Today

- Marked recovery from the 1997 financial crisis and stabilized, but
- Expected to continue to undergo "deep & fast" structural changes/ adjustment

Internal Strain

- Sagging and unstable economy
  Losing growth momentum
- Declining industrial competitiveness
- Increasing disparity (new divide)
  Job instability (Jobless Growth)

External Pressure

- Globalization
- S&T revolution (IT, NT, BT etc)
- Surging-up of China
- (+ DDA, FTA)

- Fundamental changes under way
  - Industrial structure and leading players
  - Market and policy environments
  - Firm behavior/strategy and exterior interaction
  - Polarization across/ within industries and firms

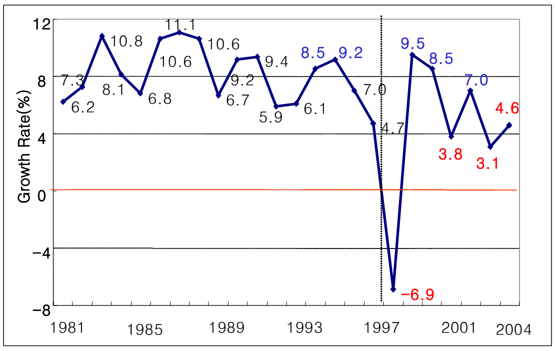
<Sagging and unstable economy>

<Losing growth momentum>

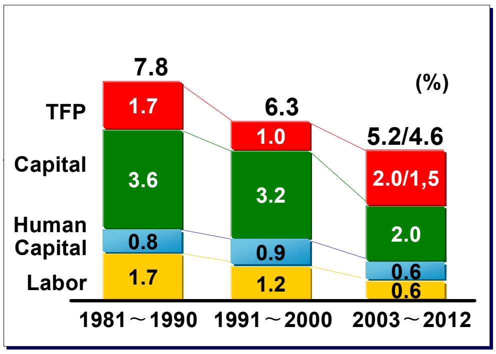
➢ **Growth performance:**
- **more precarious since the 1997 crisis**
- **third business cycles under way now**

➢ **Long-term potential growth rate:**
- **forecast to fall esp. due to falling labor input (aging problem)**

Growth Rate (1981-2004)



Potential Growth Rate (1981-2012)

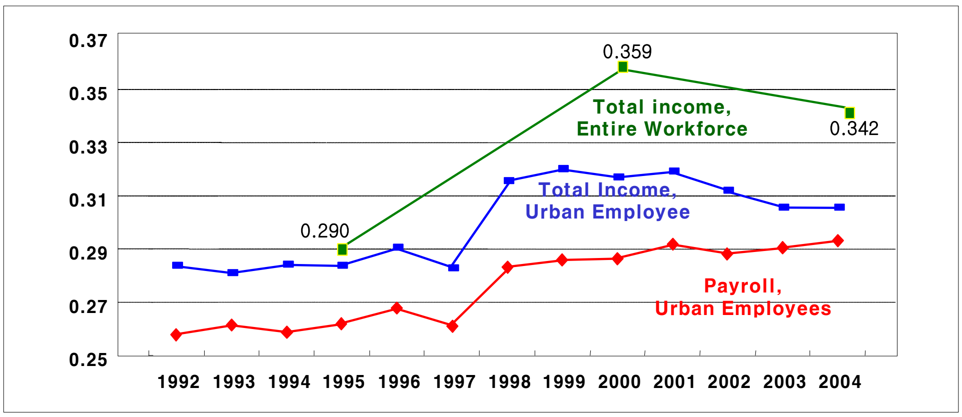


< Rising Income Disparity >

➢ **Also, mounting concern over greater income disparity**

*** Income gap increased among urban wage earners (2/3 of total workforce) +**
*** among the whole workforce including self-employers and unpaid workers (1/3)**
=> New "Working Poor" groups: SMEs labor, self-employers, and temps

Gini-Coefficients (1992~2003)

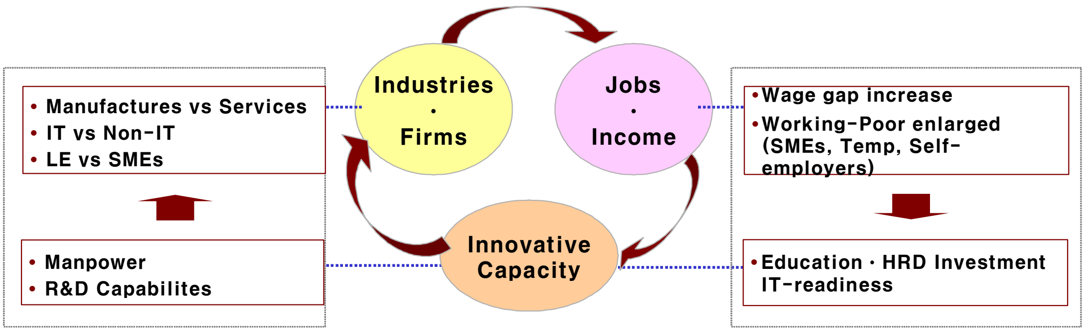


II. Polarization in Korea

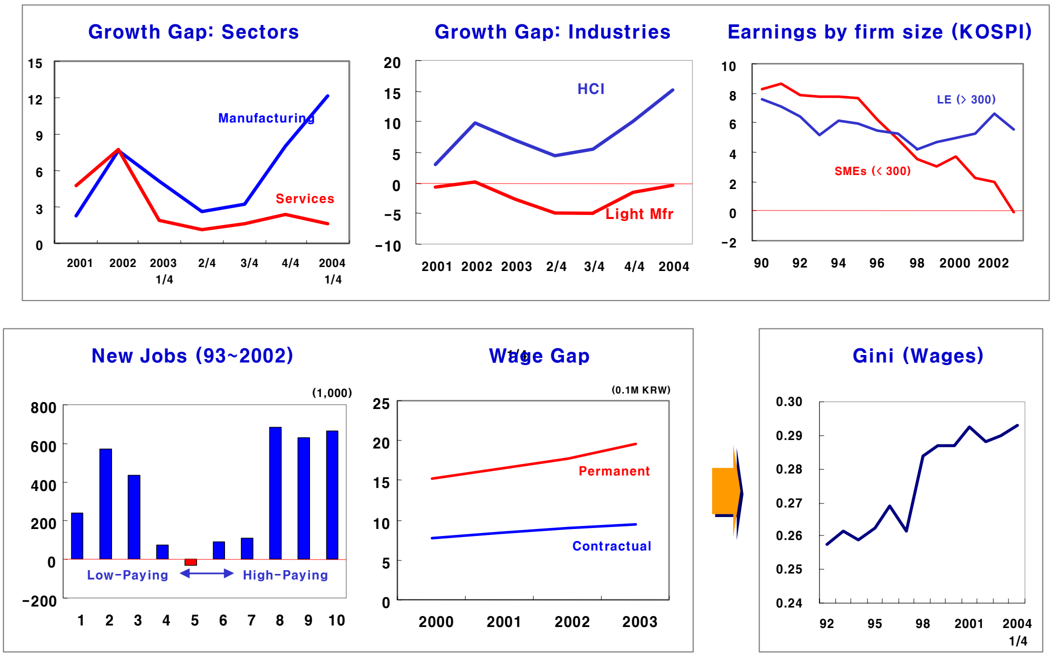
■ Drastic changes in economic environment (esp. since the crisis)
=> Rapid progress of Polarization (Divide)

- Developed steadily during 90s + amplified during the recent recession
- Self-sustaining forces in effect now (arguably)

Circular Structure of Polarization



[Cutting Dimensions of Polarization]



II-1> Polarization: Jobs & Income

New challenges arise in both "quantity & quality" of jobs

- 'Employment rate' remains low compared to advanced nations
  - * ('96) 63.7 ➔ ('02) 63.3 ➔ ('03) 63.0 ➔ ('04) 63.6 %
- Employment gains occurred mostly in the 'non-regular' jobs
- "U-shaped job-creation curve:
  - * Mid-level income jobs ↓, while low- & high-level income jobs ↑

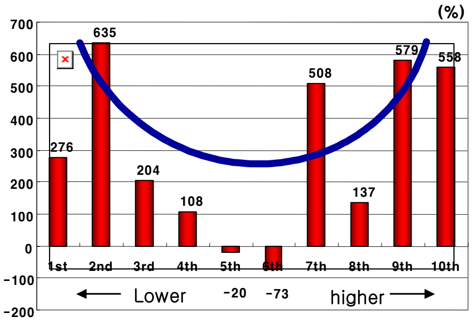
Total Employment & Non-regular Workers

(thousand persons, %)

	2001	2002	2003	2004
Employ-ment	21,572	22,169 (2.8)	22,139 (-0.1)	22.557 (1.9)
Non-Regular	3,636	3,839 (5.6)	4,606 (20.0)	5,394 (17.1)

* The figures in ( ) are the rate of increase (%)

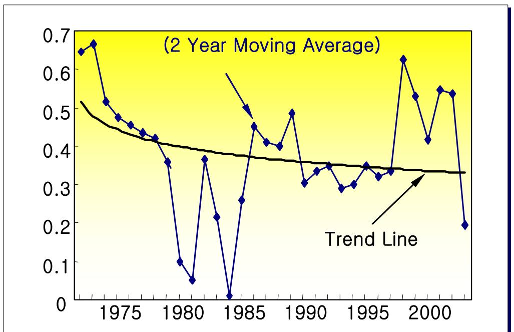
Employment Changes by Income-Deciles Jobs Group ('93~'04)



>> Quantity: Growth without employment

➢ On top of precarious and low growth,
a concern is rising over the sign of "Jobless Growth"

Employment Elasticity (1970-2002)



Source: KDI
* Employment Elasticity =
Employment growth Rate / Economic Growth Rate

Current Situation and Issues

➢ The elasticity changes erratically, but appears to fall below the long-term trend lately

➢ Source of Problems

- ▶ Business downturn
  - Rapid contraction of the service industry
- ▶ Reduced labor demand in the manufacturing sector
  - Rapid decline of labor intensive industries. occupied mostly by SMEs
- ▶ Inflexible labor market
  - labor unions in public sector and large firms
  - Restrictive lay-offs and hiring practices

>> Quality: Expansion of Low-paying Jobs

Wage gap increased among Industries, and btw SMEs and LEs

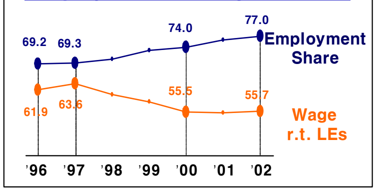
- SMEs wage relate to LEs in Mfr: 64% ('97) ➔ 55% ('02)

Rapid/Continued Increase in: Non-regular Workers, Self-employers

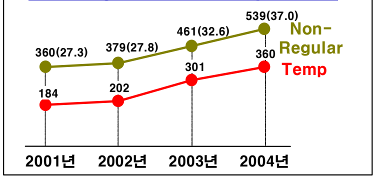
- Non-regulars: 1.6M persons ↑ since '02
  - Esp. temporary workers
  - Wage relative to regulars: 60%
- Self-employers: excessive ↑ across all industries ➔ sharp income decline
  - * ↑ by 0.64 M during '95~04 (5.6M ➔ 6.2M)

the "Working-Poor" expanded: SMEs, Non-regulars, Self-employers

Employment and Wage of SMEs)

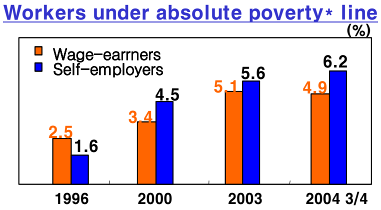


Non-regulars and Temps (10T)



* ( ): share in total wage-earners

Workers under absolute poverty* line



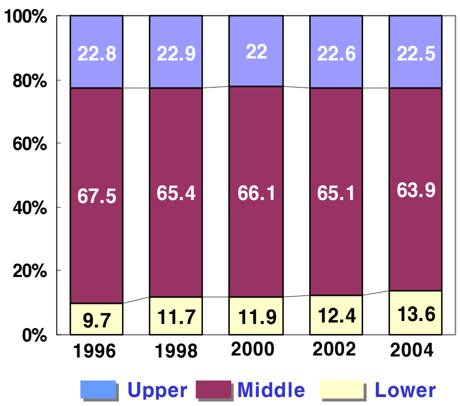
* Official measure by the Korea's government

>> Dwindling "Middle Class" & Rising Social Tension

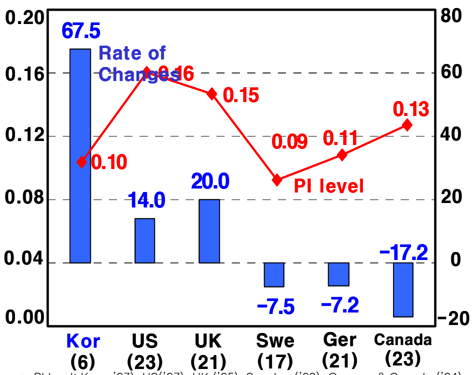
Increased "Working Poor" ↔ shrinking middle class

The Potential Social Tension increased sharply
(as measured by "PI: Polarization Index)"
- PI rose rapidly since 1997
  (was high already in 1997, close to the advanced countries)

Shrinking Middle Class



PI of Korea (level & % change)

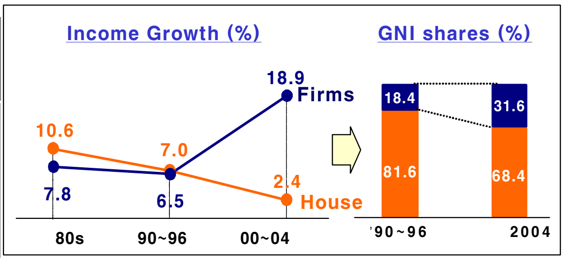


* PI level: Korea'97), US('97), UK ('95), Sweden ('92), Germany& Canada ('94)
** Number in () denotes the number of years for the PI Changes. For instance, PI change in Korea (67.5%) occurs during'97~'03. For all others, the % changes occur over the denoted length of period, preceding the above-marked current year

[Ref] Polarization: Business & Households

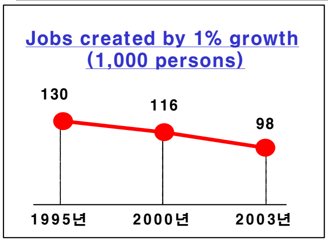
Booming business, but Troubled Households

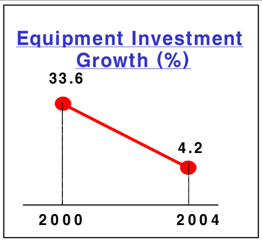
- Sharp ↓ in households income
  - Esp. cottage shop owners: 21.6%('01) → 17.3%('02) → 13.2%('04)
- Mostly in disposable income

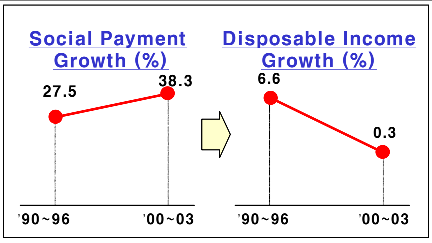


causes

- ↑ the under-employed, ↑ Overseas Investment → Low jobs creation
- Firms alert to financial soundness, avoiding new investment
  → business profits do not flow into households
- ↑ Households' social-payment burden → sharp ↓ disposable income







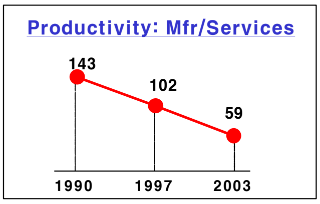
II-2 > Polarization: Industrial & Business Side

>> Phases of Development

Sectors

Manufacturing vs Services since 1990

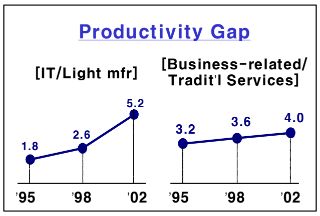
- Productivity gap of services increased



Industries

Leading vs Traditional : Mfr → Services

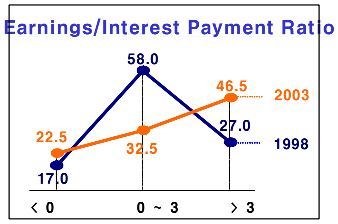
- Mfr: HICs including IT vs. Light Mfr
- Services: Business-related vs. Traditional



Firms

Leading vs. traditional at all industries

- Pronounced in high-growth, dynamic industries -> extended into all industries including traditional services
  - Hollowing-out of mid-performers

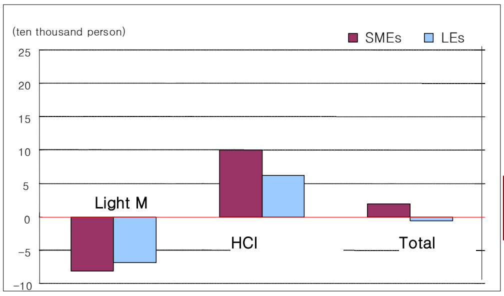


>> Polarization within the Manufacturing Sector

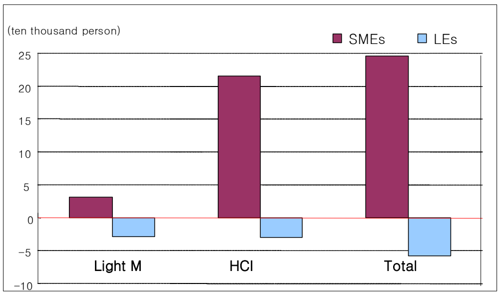
➤ **Expansion of lower-productivity SMEs sector in employment => worsening of income distribution**

* Changed pattern of sectoral divide in mfr. since 1990:
HCI vs Light manufactures (~ mid 90s) → Large firms vs SMEs (late 90s ~)

Export Boom during 1993~1996



Export Boom during 1999~2002



✓ Whether SMEs or LEs, employment
- increased in light M (less productive)
- decreased in HCI (more productive)

➔ tendency to improve income distribution

✓ Whether HCI or not, employment
- increased in SMEs (less productive) - decreased in LEs (more productive)

➔ tendency to worsen income distribution

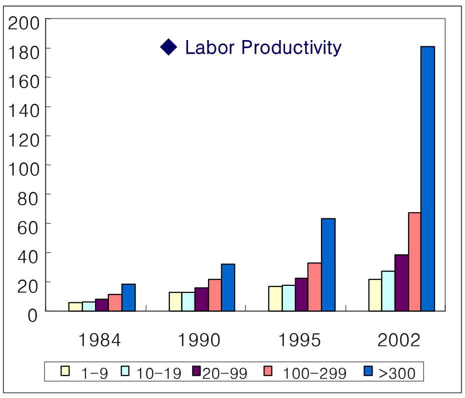
>>> SMEs Productivity Gap in the Manufacturing Sector

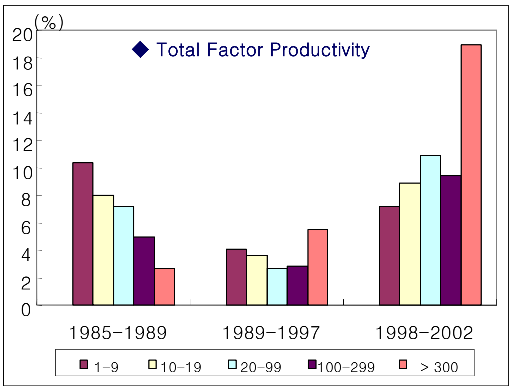
➤ **Increased across industries and almost for all size groups**

* labor productivity: SME's gap against large firms enlarged steadily

* TFP: SMEs once outperformed large firms -> reversed during 90~97 -> gap widening
- TFP growth during 1998~1991: SMEs 8.87 vs LEs = 15.21

Productivity Gap against Large Firms





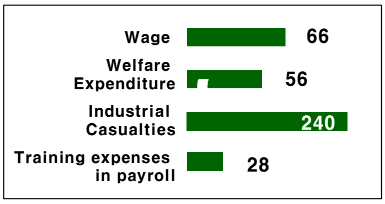
Size groups are in number of employees

>>> SMEs Productivity Gap : Sources

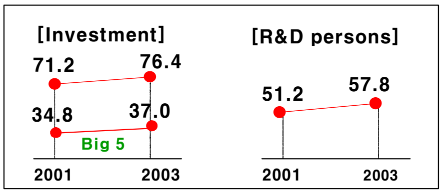
➢ Gaps against large firms in **R&D and human resources** substantial/ widening

Human Resources	▪ wages and working conditions are inferior -> chronic labor shortage - SMEs Labor shortage: 6.3%, 8 times higher than Les - esp. 1/3 of SMEs face shortage of technicians and engineers despite abundant supply of technical HS, jr. college, and university graduates (most acute in traditional industries, and small firms with employees under 50 ▪ labor turnover ratio: 2~3 time higher than LEs
R&D Resources	▪ Prime R&D resources rests with big companies, esp. top 5 star companies (Samsung, LG, Hyudai Motors, etc.) ▪ Within SMEs, gap is widening btw NTBFs and traditional SMEs

SMEs as against LEs ('03, %)



R&D share of LEs (%)

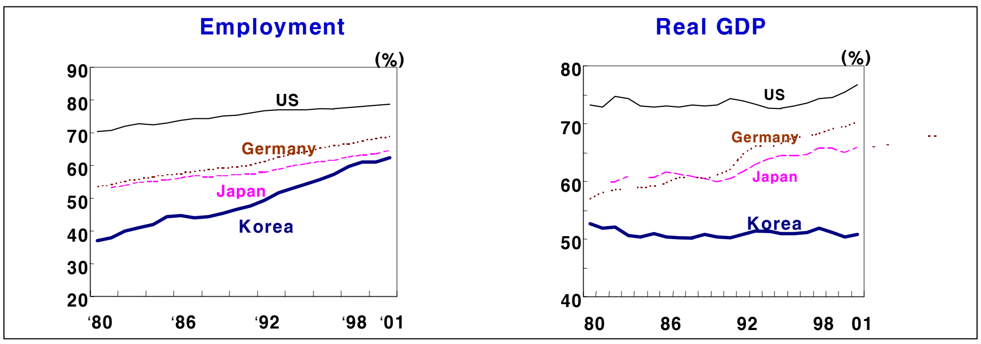


>> The Services Sector in Korea

➢ **"Job quality & income disparity" problems largely reflect Korea's undeveloped service sector**

- Service sector has expanded steadily in employment while **Real GDP** has remained stagnant at 50~52%
  ⇔ **Low-productivity** of services

Share of the Service Sector



Source: OECD, STAN D/B

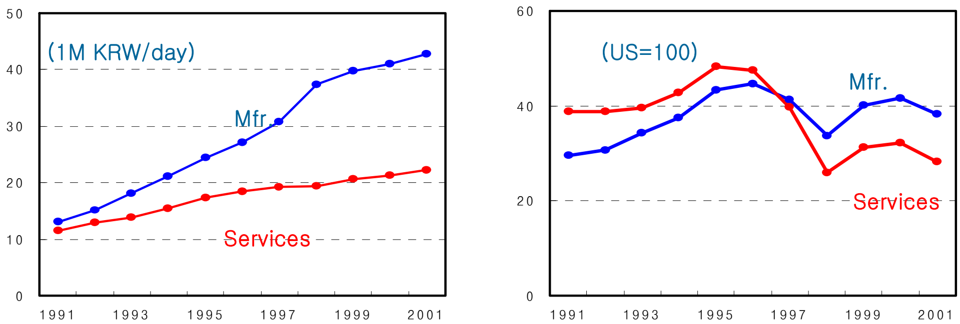
>>> Productivity of the Services Sector in Korea

Widening gap against the manufacturing sector and abroad

- Services absorbed labor released from mfr. since early 1990s, while productivity gap against mfr. increased rapidly*

  * Productivity gap widened since the mid 90s against the U.S. (more pronounced in services than in mfr.)

Changes in Labor Productivity



- Marked productivity increase in the Korean mfr after the financial crisis
  * 4% ('85–'97) → 11.7% ('99 ~) * led by flagship companies in electronics, auto.

[Ref] De-industrialization & Income Distribution in Korea

Fast & unbalanced de-industrialization process in Korea => great burden on income distribution

- Advanced nations experienced de-industrialization since '80 or earlier. but that time, en productivity of services was as high as (US)or higher than (France) the mfr sector.
- Entering 90s, services productivity fell behind mfr, but the gap was not that high, and labor shifted gradually toward services

=> Korea, labor shifted to services i) rapidly after '90, and ii) with productivity gap against the mfr. sector widening very fast → greater burden in overall income distribution

Productivity & Employment Changes of Services

(unit: %)

	1980-1990			1990-2001		
	Productivity (Mfr=100)	Employment Changes		Productivity (Mfr=100)	Employment Changes	
		Services	Mfr		Services	Mfr
Korea	113	5.11	5.08	68	4.13	-1.42
Japan	111	1.77	0.92	96	1.33	-1.84
US	99	2.54	-0.57	77	1.76	-0.76
France	118	1.66	-1.74	91	1.61	-1.23

Source: OECD, STAN D/B

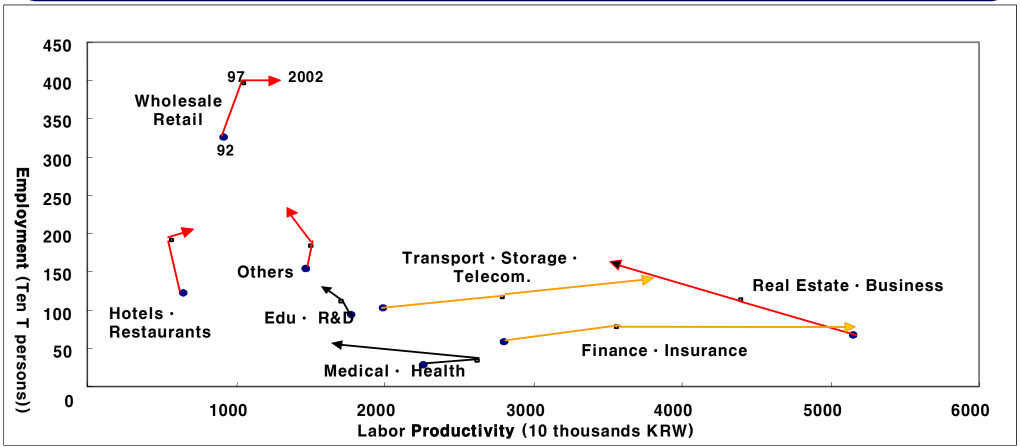
>> The Services Sector in Korea : Employment

Most of employment gain in service sector since 1990 occurred in low-productivity traditional service sector

- Employment in high-productivity sectors has been stagnant/shrunken

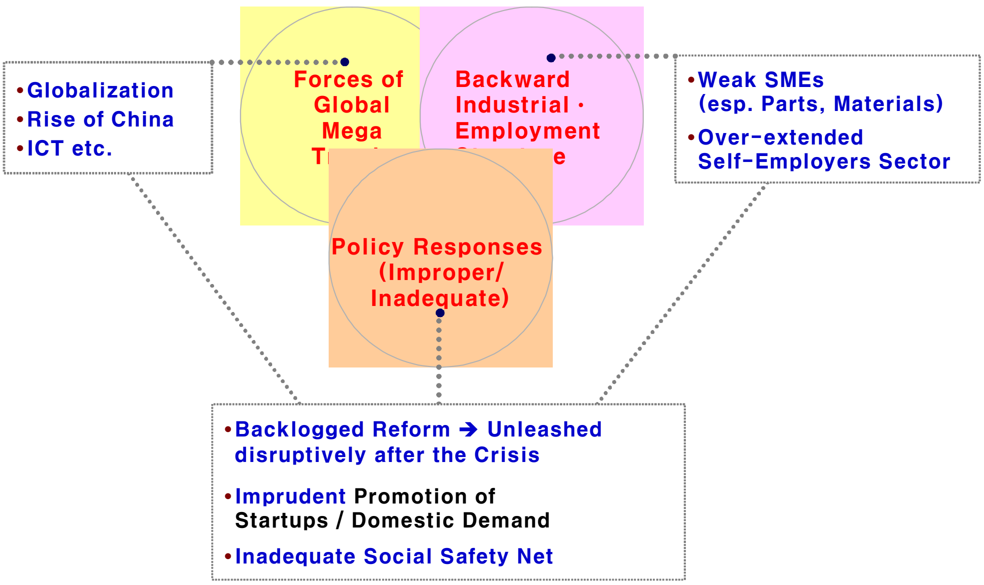
* traditional services : wholesale/retail/restaurants/hotels

Productivity & Employment Changes in Korean Service Sector ('92. '97, '02)



III. Sources of Polarization in Korea

Global Trends + Industrial Structure + Policy Factors



III-1 > Global Challenges : The China Factor

Mixed Effects

1) Gains for leading companies

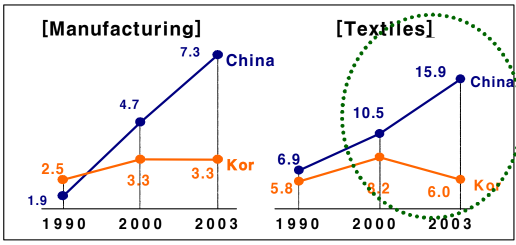
: Exports to China up for tech-intensive products (IT, machinery)

2) Threat for traditional firms

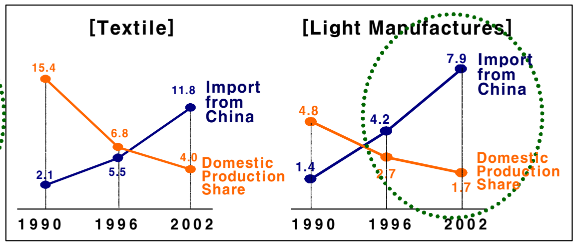
: Markets for low VA, unsophisticated products eclipsed by China (and BRICs) (both domestic and overseas)

* **Outbound FDI to China by** leading Korean companies
=> traditional sub-contract relation with SMEs eroding

China vs Korea in Global Export Market



Crowding-out by Imports from China



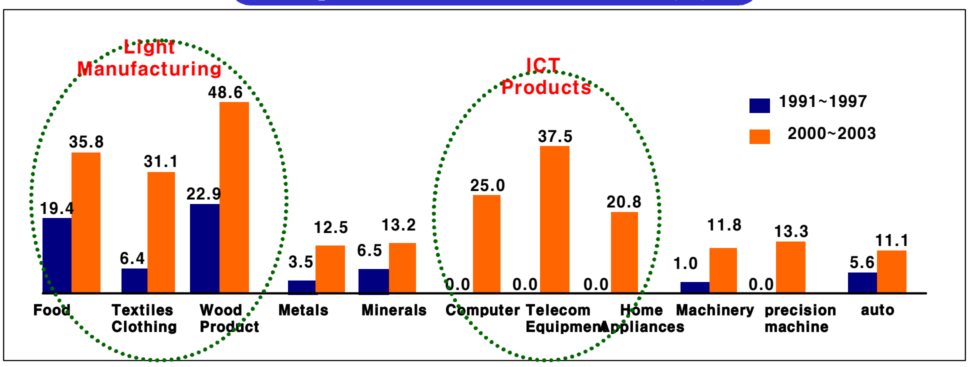
>>> How many Korean SMEs are vulnerable?

After the crisis, the proportion of vulnerable/uncompetitive firms increased sharply in Korea's manufacturing sector

* **Before the crisis 0.9% ➔ after the crisis 15.3% ➔ likely to increase further**

- **Not only in light manufacturing but in IT**

Proportion of the Vulnerable Firms (%)



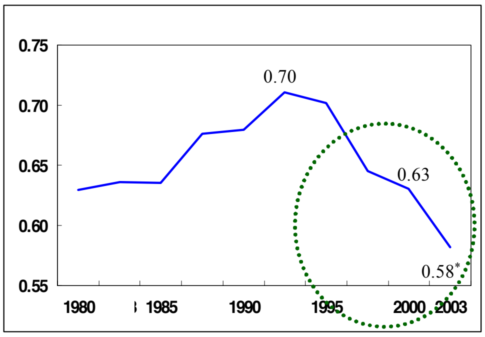
Primitive estimate by KIET (2004)

III-2 > Parts, Materials, and Machinery Industries

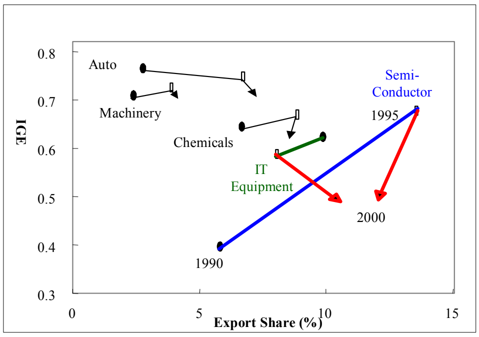
➢ **Week Competitiveness taxing Korea more and more ➔ Polarization btw Exports & Domestic Demand (recession)**

* **Import-dependency keeps rising (equipment machine:94 ('98) ↗ 137 ('03))**
* **Spillover of exports falling since mid 90s (esp. in IT sector)**
  - **employment creating effect : 25.8 ('95) ↘ 15.7 ('00)**

Income generating effect of exports(△GDP/△export)



Export share & Income-generating effect



* Figure for 2003 is estimate

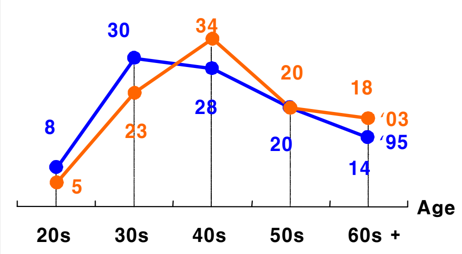
※ Income-generating effect of advanced nations: Japan 0.89 ('00), US 0.91('90)

III-3 > Self-Employers Sector in Korea

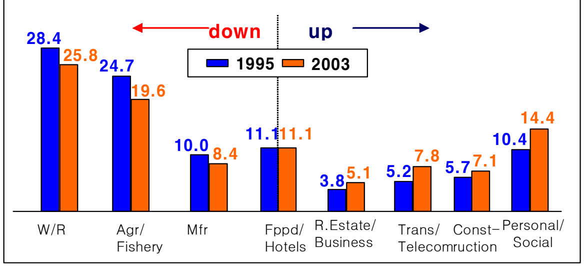
Persistent problem of easy entry and excessive presence

- **Share in the whole workforce: 27~28% since 1990 (600 M in '03, 27.3%)**
  - * US 7.3%, Japan 10.8%, Germany 10.1%, Chinese Taipei 16.0%
- **Concentrated in : Wholesale/Retail (25.8%), Agr/Fishery(19.6%), Personal/Social services (14.4%)**
- **Aging under way: 40-yrs old & more 62%('95) ➔ 72%('03)**

Age Distribution of Self-employers (%)



Employment Shares of Self-Employers (%)

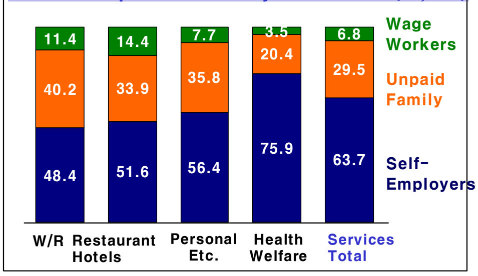


[Ref] Self-Employers Sector in Korea

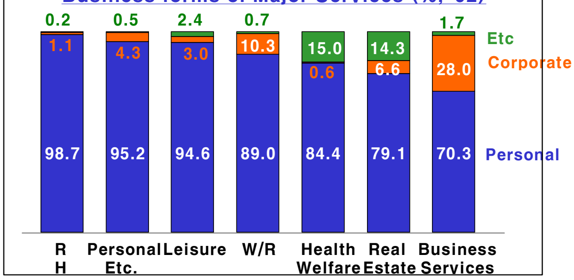
Organizational mode of self-employers

- Mostly run a small-shop drawing on own labor or family labor
  - * unpaid family workers: 1.6M (7.2% of the whole workforce)
    - 6.8% of the whole services labor (high in restaurants, hotels, W/R)
- Epitomizes the overall backwardness of the Korean services sector,
  - mostly 'Personal shop (> 80%)
  - Very small: establishment with less than 4 employees = 90%
  - => making systematic policy accession/treatment difficult

Labor Composition of Major Services (%, '03)



Business forms of Major Services (%, '02)



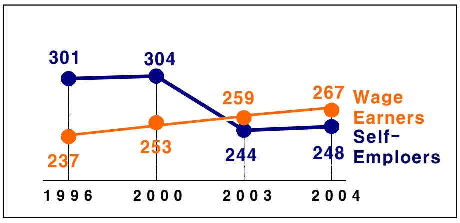
[Ref] Self-Employers Sector in Korea (cont.)

Lately | Income growth stalled → Real income dropped sharply

Average Income

- Exceeded wage workers till '00,
  => reversed lately
  - * real income in '04 = 82% of 1999
  - * monthly income below 1M (2M) KRW: 7.7% (35.7%) of the cohorts

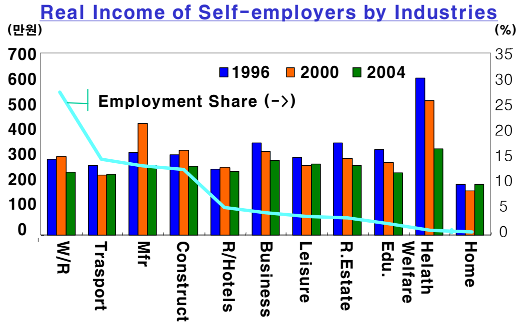
Real Income Trend (10 T KRW)



Income by Industries

- Real income ↓ throughout since '96
  - Most pronounced in high-income sectors (health · welfare and mfr.)
    ➔ downward unformizaton
  - Even nominal income ↓ during '00-'04 in W/R, construction, education.

Real Income of Self-employers by Industries

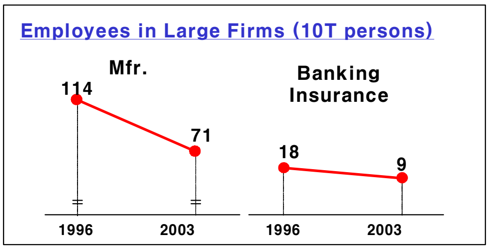


III-4> Policy Liabilities Factors

Delayed Reforms

※ Restructuring of large firms: massive labor shedding => labor move to mfr SMEs & Services

- then to services mainly (mfr. SMEs saturated)



Inherited Burdens

- Imprudent starts-up promotion after the financial crisis
  - unguided/excessive entry in cottage businesses
    (a mass of displaced workers from mfr & large firms entered)*
- consumer loan policy & consumption-driven boom during 2001~2002
  - hided structural problem
  - delusion about 'true state of affairs' (entry continued)

Labor Relations: Insider-outsider problems (SOEs, LEs)

Underdeveloped Social Safety Net & FET System

- FET (Further Education & Training):
  - lack of quality programs for HR upgrading / outplacements
  - inaccessibly for most SME and services workers

  ➔ Job insecurity, and widening skills gap
- Social Safety Nets
  - Limited coverage / effectiveness of social Insurance and support program (introduced / harnessed around the crisis)

IV. Policy Agendas & Prospect

"Disparity" likely to persist / amplify for the time being

- Global challenges deemed to amplify (Tech Revolution, China etc)
- Problems relating to Industrial structure and individual competences not to be resolved in the short-run

  : Existing problems reflect "market, systemic failure" inherent in R&D, Education/HRD, SMEs sector (no magic quick fix)

* Economic recovery will only help relieve pains temporarily, mostly by helping self-employers in the traditional services

✓ Call for **Proactive and Innovative Policy Responses** from a **Long-term Dynamic Perspective**

IV-1> Basic Perspective & Strategy

- Not a reduction of realized disparity through traditional welfare (re-distribution or protection) measures
- But ensuring of **maximum economic dynamism** with expansionary re-generation of productive resources

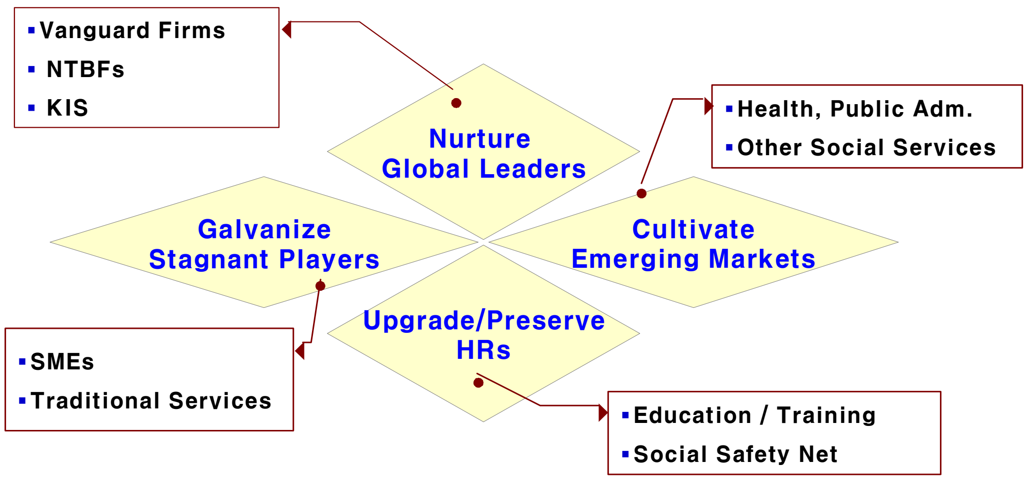
- Neither a traditional welfare approach or single minded pro-growth approach will not work because :
  Korea is situated in a "low growth – high disparity" trap due to structural (not cyclical) causes

Cross-hauling, co-development strategy for the leading sectors and backward sectors alike

- Unleash/encourage leading groups to make global players
  => strengthen "growth locomotive" for now and near future
- Re-motivate and re-empower yet-feeble (vulnerable) players to join leading groups in future
  => foundation for long-term stable growth with social cohesion

IV-2> Four Pillars of Strategy

Secure the Maximum Performance of the Forerunners
+
Pull-out the Potentials of the Others for Self-lifting



IV-3> Policy Agendas

• Nurture Global Leaders

- Promotion of KIS (Kowledge-Intensive Services)
  - * Business Services, Culture Industries, Education
- Strategic FDI & overseas business
- Regulatory Reform
- New Labor Relations

• Galvanize Stagnant Domestic Players

- Upgrade SMEs : Innovation-oriented Policy
  - * Revamp financial / technological support system
  - * Market-based restructuing
- Revamp self-employer sector ➔ More Quality-Jobs

IV-3> Policy Agendas (cont.)

Upgrade/Preserve HRs

- Upgrade FET system → greater upward labor mobility
- ALMP for the unemployed / displaced worker → Inter-generational labor mobility
- Harness Social Safety Net → Social Cohesion & Greater tolerance for Competition & Reform

Cultivate Emerging Markets in Social Services

- Bring personal home-bound services into markets
(e.g. health-caring of the old, child-caring)
- Expand / upgrade social employment, Nurture social enterprises
- Enhance public services with enough front-line manpower

IV-4> Policy Environments

Ongoing recession →

- Facilitate overdue 'restructuring'
- Clear-up inherited structural burdens
- Sharpen policy on services

Full awakening to the gravity of the problems
=> Various new policy initiatives set off lately

- Comprehensive plan to upgrade services
- Switch to innovation-oriented SMEs policy
- Pursuit of FTAs (including that with Korea-US) etc

Favorable market factors

- HR base / Learning Capacity
- New trends in services

But great adversities as well

- Pension reform, Education reform
- Financial resources, etc.

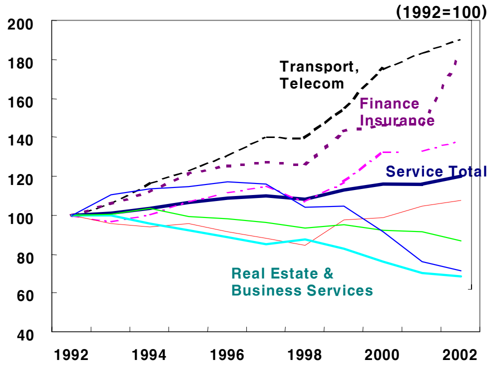
>> Emerging Trend in Korean Service Sector

Toward late 1990s, a new trend appears to set in.

- The modern business-related sectors started to pick up in productivity, compared to traditional sectors
- After 2000, the service sector created most high-paying permanent jobs

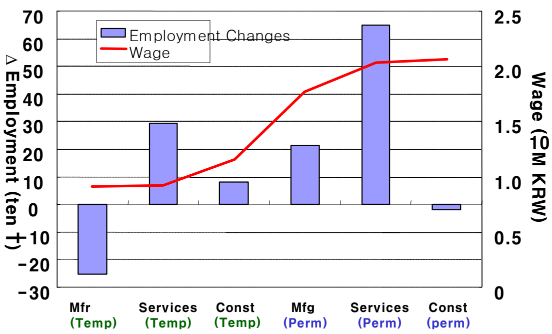
Productivity Changes in Service since 1990

Level relative to yr. 1992



Jobs Creation by Work Type & Industry

Mfg, Construction, Service



[Ref] Promising Services in Korea

❖ Cultural Industries

- Leapfrogging performance: Cinema · Broadcasting · Game etc.
  - GDP share ('02) 6.6%, Average growth rate ('99~'02) 21.1% (World average 5.2%)
- Domestic and foreign demand likely to keep growing fast (40 hrs working, Growing exports to Asian market (success of Korean dramas)
  - Export growth rate ('03, %): Movies 127, Game 50, Broadcasting 30, Characters 24

❖ Business Services

- IT-related services & professional BS are growing fast
  - Professional BS : Employment growth 7.7%
Labor productivity growth 30% (annual average, '99~'03)
- For now, local firms are feeble and subject to restructuring pressure (excessive market entry after the financial crisis)
- But good potential to settle and prosper after transitional period – led by foreign MNEs and a group of small, local innovative firms

❖ Social Services

- Demand conditions are maturing, and many foreign cases to refer to
  - With prudent public investment to ferment the market and with appropriate institutional arrangements in place, can develop into a self-sustainable industry

[Ref] Education & Age Profiles of the Korean Workforce

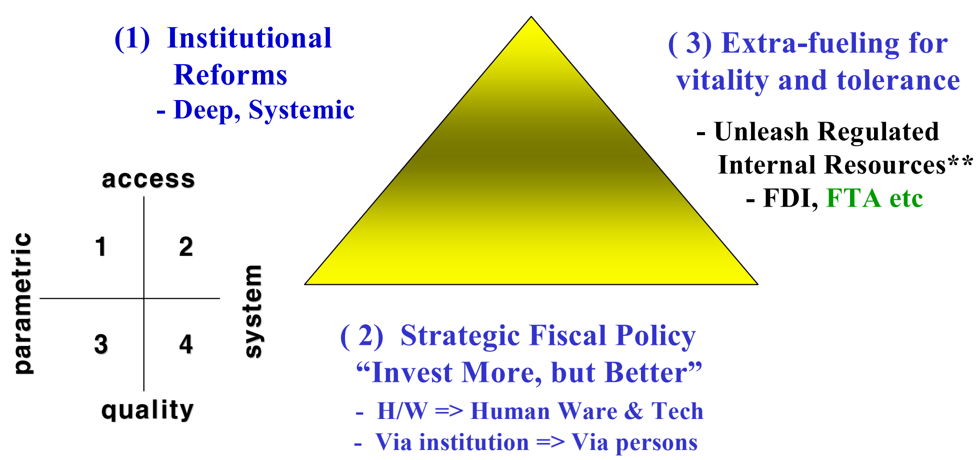
◈ **On the whole, highly-educated & modestly aged**

- About 3/4 of the entire workforce has high-school edu or more
  - Among the self-employers(56%) and limited-time workers(51%), the portion is lower; but temporary workers (75%) matches the average
- About 3/4 of the workforce is below 50-yrs old

	Sum	Educational Attainment		Ages		
		< MS	> HS (< Col)	< 30	40~49	> 50(> 60)
Self 1	19.9	8.8	11.2(3.0)	5.1	6.0	8.8(4.6)
Temporary	22.6	5.6	17.0(5.3)	13.6	5.0	4.0(1.5)
Limited	9.6	4.7	4.9(0.5)	3.8	2.7	3.1(1.3)
Unpaid	7.7	3.9	3.8(0.8)	2.7	2.4	2.8(1.5)
Permanent	32.8	2.7	30.1(17.6)	21.1	8.0	3.7(0.5)
Self2	7.4	0.9	6.5(3.1)	2.6	3.2	1.6(0.4)
Sum	100.0	26.5	73.5(30.3)	48.8	27.2	24.0(9.8)

* Self1 = Self-employer without paid workers, Self2 = self-employers with paid workers
MS = Middle School, HS= High-School

Golden Triangle to Overcome "Disparity"



* Better to Have External Anchoring

V. Remaining Challenges

Government — **Top priority on disparity issue**

- All-out efforts to prevent inter-generational poverty trap
- Consistency in policies beyond business / political cycles
- Integrated approach for industry-HR-Welfare policies
- New leadership based on vision, foresight & capacity

Private Sector — **Mindset for collective problem solving**

- Share basic outlook and alertness
- Conflict resolution through dialogues and negotiation
- Social Capital based on new social relations / communities

[Annex Table] Employment Structure of Korea (2003)

(thousand persons, %)

	employed(%)	Unpaid workers (compare emplyed %)	employer	own-account	unpaied family	Paid workers(Temp & Daily %)
Agriculture, forestry&fishing	1,950(8.8)	1,788(91.7)	27	1,156	605	161(91.1)
Mining&manufacturing	4,222(19.1)	655(15.5)	277	231	148	3,566(36.1)
Electricity, gas&water	76(0.3)	1(1.8)	0	1	1	75(13.9)
Construction	1,816(8.2)	462(25.4)	232	199	31	1,354(74.6)
Services	14,076(63.6)	4,830(34.3)	1,094	2,827	909	9,246(50.6)
Wholesale&retail trade	3,871(17.5)	1,998(51.6)	368	1,190	440	1,873(66.8)
Restraurants&hotels	1,981(8.9)	958(48.3)	315	357	286	1,023(92.3)
Transport, telecom&finance	2,084(9.4)	529(25.4)	59	452	18	1,556(31.0)
Estate & Rental	423(1.9)	162(38.2)	37	104	21	261(56.4)
Business services	1,303(5.9)	178(13.7)	87	81	11	1,125(42.4)
education services	539(2.4)	43(8.1)	36	6	1	495(29.1)
Public social and personal	2,929(13.2)	719(24.5)	162	445	111	2,210(39.8)
Total	22,139(100.0)	7,736(34.9)	1,629	4,413	1,694	14,402(49.5)

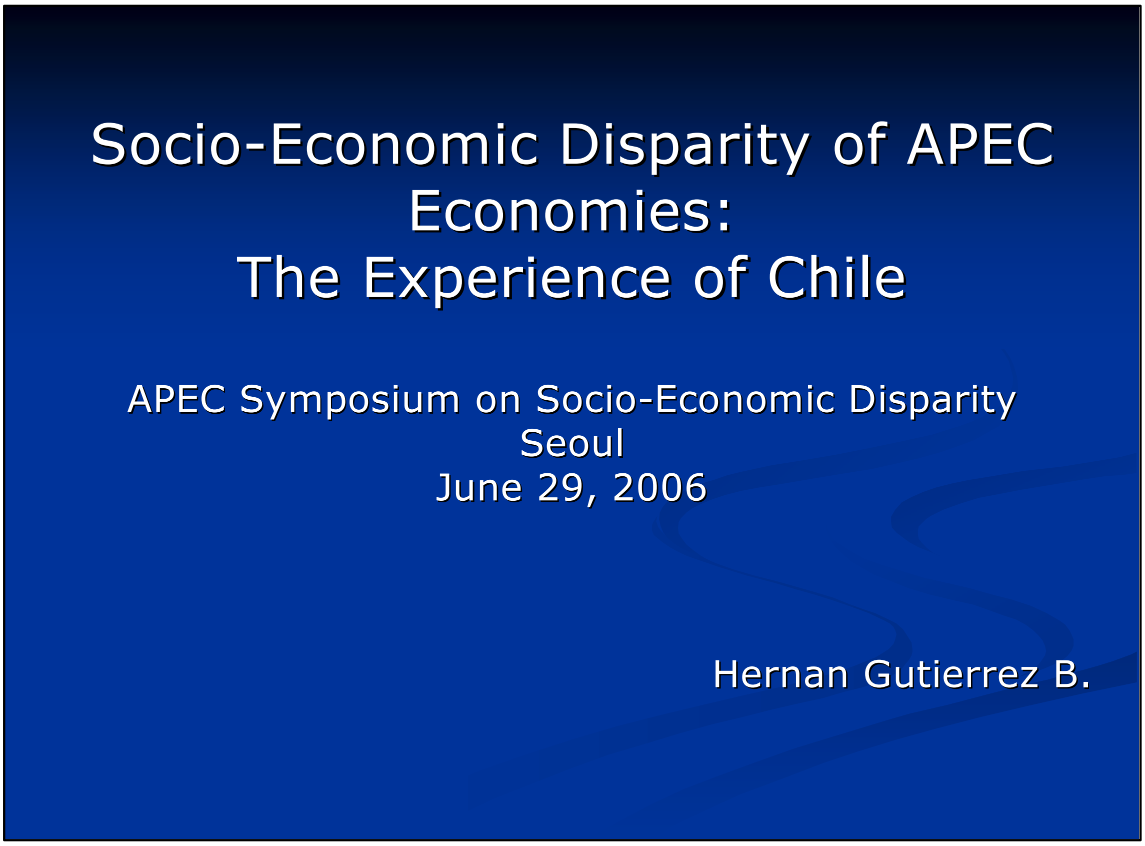
Source: Korea National Statistical Office, The economically active population survey 2004

Key References

- "Knowledge Revolution in Korea: National Strategy & Roles of Public Policy", .
  by CS Woo (presented at the World Knowledge Forum 2002, The World Bank Session on Country Knowledge Strategies: Oct. 17, 2002)
- "Globalization and Structural Change in Korean Economy",
  by Jung Taik Hyun (President of KDI) (2006. 2)
- "Upgrading the Services sector in Korea: Prospect & Challenges"
  by Cs Woo (presented at OECD Tokyo Forum on Services & Trade and Structural Adjustment (July 15, 2005)
- Dynamic Korea: A Nation on the Move: Vision and Strategy of the Participatory Government
  by the Government of the Republic of Korea (2004. 7)
- .Vision 2030 : Long-term Development Vision and Financial Strategy of Korea toward 2030
  work in progress since July 2005 (MoPB-KDI)

Socio-Economic Disparity of APEC Economies: The Experience of Chile

Hernan Gutierrez B.
Minister Counselor for Economic and Commercial Affairs,
Economic and Commercial Department,
Embassy of the Republic of Chile in the Republic of Korea



The Development Strategy: Growth With Equity

Track I: Pro Growth Strategy

- ✓ Opening the economy to world trade
  - Unilateral opening-up
  - Free Trade Agreements
- ✓ Conservative fiscal policy
  - Commitment to a permanent budget surplus
  - Retiring government debt as an insurance against future financial shock
- ✓ Expanding and deepening the capital market
  - Gradual diversification of financial instruments
  - Investment from privatized pension funds and other financial intermediaries

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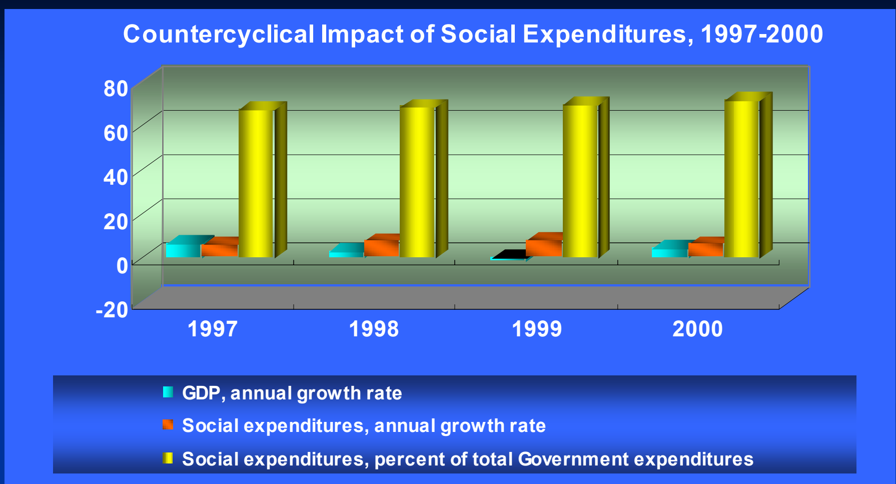
- ✓ Reform of labor
- ✓ Reform of Taxes (1990)
  - Personal
  - Corporate
  - VAT
  - Reduction of tax evasion

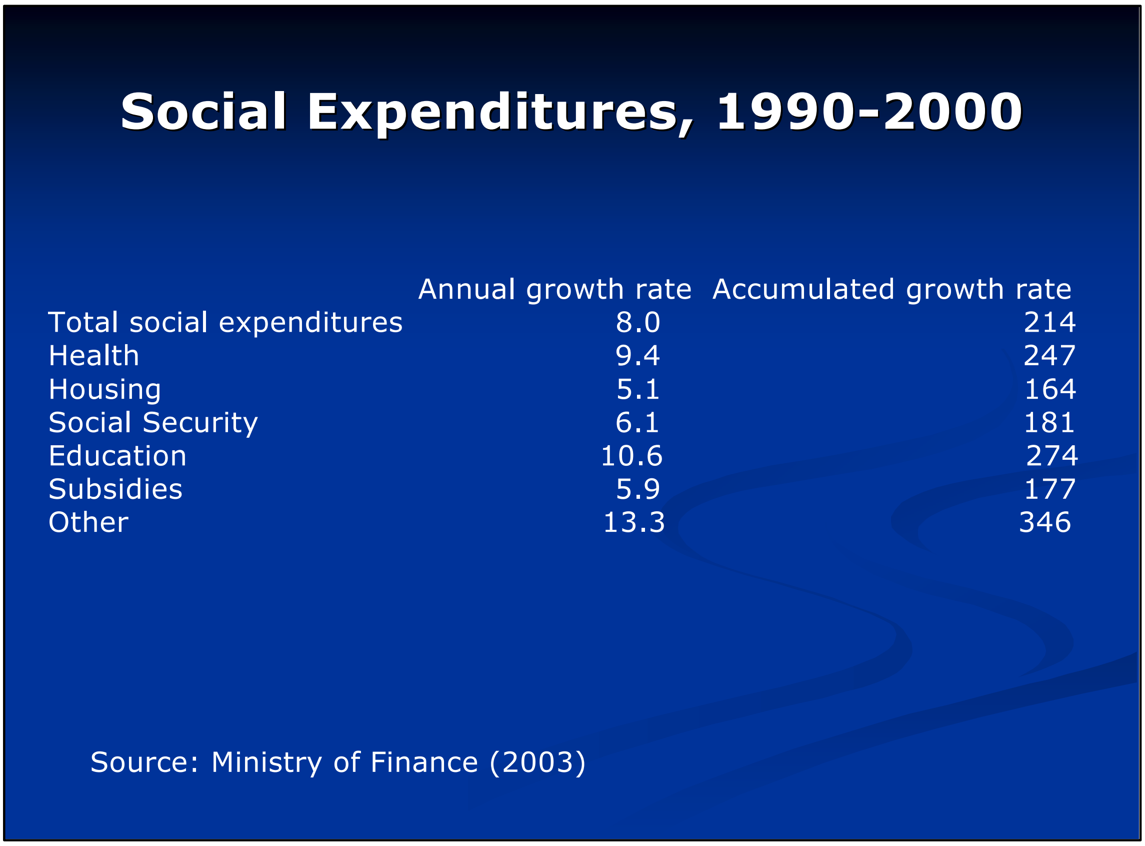
Track II: Equity

- ✓ Aggressive Social and Redistributive Policies
- ✓ Counter cyclical social expenditures policy
  - ➢ The 1998 Asian Crisis



	1997	1998	1999	2000
GDP, annual growth rate	6.6	3.2	-1.1	4.2
Social expenditures, annual growth rate	5.6	7.6	7.8	6.1
Social expenditures, percent of total Government expenditures	67	68	69	71

Source: Central Bank (2001), Ministry of Finance 2003


Social Expenditures, 1990-2000
Annual growth rate
Accumulated growth rate
Total social expenditures 8.0 214
Health 9.4 247
Housing 5.1 164
Social Security 6.1 181
Education 10.6 274
Subsidies 5.9 177
Other 13.3 346
Source: Ministry of Finance (2003)


THE "EASY" FIRST PHASE
Economic Growth
High Growth
6.1% average increase in GDP (1990-2000)
4.4% average increase in productivity
Increased Wages
Real wages increase, average 3.3 per year (1990-2000)
Real minimum wages increase: 17% (1989-1991)
Higher disposable income

✓ Expansion of Income Support Schemes for Low Income Families

- Family allowances
- Subsidies for disadvantages families, disabilities and the unemployed
- Improved minimum pensions

✓ Social Investment

- Upgrading education and skills

  - First stage: concentrating resources on the 10% of primary schools with poorest learning outcomes
  - The 2000 schools had an improvement of 12% increase in the reading and the math scores (9% in the rest of municipal schools)

  - Second stage: Systemic intervention at the primary and secondary school levels, oriented toward low income families (upgrading teaching materials, libraries and networking schools through Internet –Enlaces-, providing funds for school or teacher generated innovative projects)

- Third Stage: Extended the school day to 8 pedagogical hours, 1200 hours a year, accompanied by huge wage in creases for teachers, more than doubling their salaries in real terms in ten years

- 300% increase (1990-2000)

✓ Improved access to public health

- Investment in public hospitals and primary care units increase from US$ 10 million to US$ 100 million a year
- Sharp increase in primary health care subsidies administered by municipalities
- Increase in salaries paid to hospital personnel

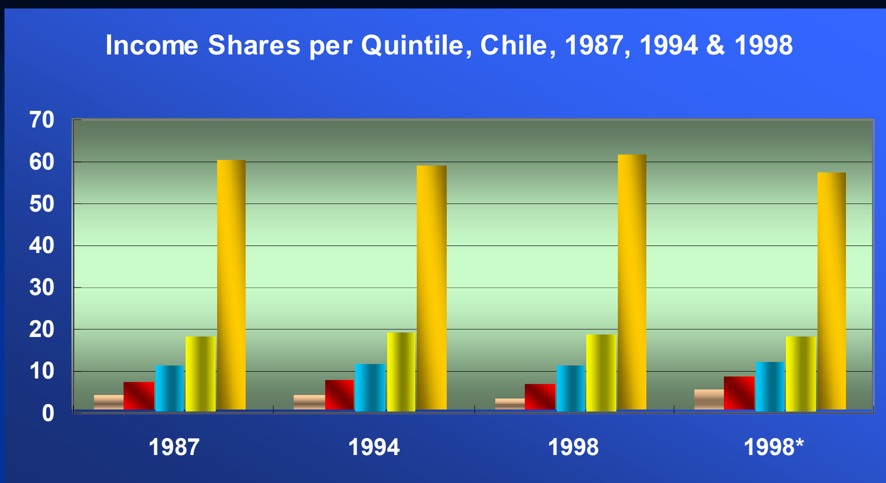
✓ Housing

- 160% increase (1990-2000)
- Emphasis in the lower income quintile, in rural communities and in urban renewal programs

Poverty Indicators in Latin America in the 1990s (% of population)

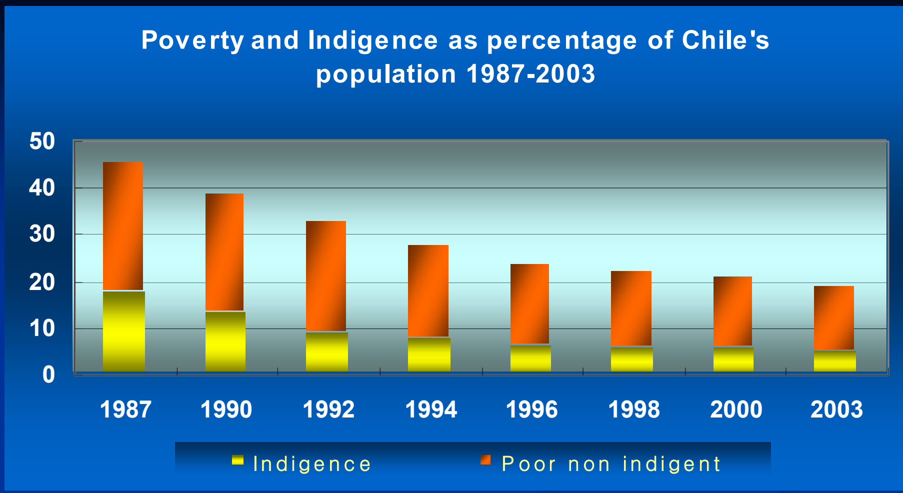
	1990	1999
Brazil	48	38
Chile (2000)	39	20
Colombia (1991)	56	55
Costa Rica	26	20
Guatemala (1998)	63	60
Mexico (1989,1998)	48	47
Venezuela	40	49
Latin-America	48	44

Source: A.Arenas and P. Benavides (2003)



Quintile	1987	1994	1998	1998*Total Incl. Transfers
1	3.7	4	3.1	5.2
2	7.1	7.5	6.7	8.2
3	10.9	11.5	10.8	11.6
4	17.9	18.5	18.3	18
5	60.2	58.5	61.1	57

Source: World Bank 2002



	1987	1990	1992	1994	1996	1998	2000	2003
Indigence	17.4	12.9	8.8	7.6	5.8	5.6	5.7	4.7
Poor non indigent	27.7	25.7	23.8	19.9	17.5	16.1	14.9	14.1

Source: Central Bank 2001, Mideplan 2001

The Challenge: Integrated & Systemic Approach

World Bank study: By 1996, a 1/20 monetary income differential between the poorer 20% of the population and the 20% richer had been reduced to 1/11 redistributive effects of social expenditures.

Income distribution, when considering only monetary income, improved between 1990 and 2004 but has deteriorated by 1998.

However, when income distribution is adjusted for cash and in-kind transfer, the situation drastically improves.

Studies: Active social policies explain 40% of poverty reduction. Economic growth explains the rest.

The slowdown in the second half of the 1990s had to do with decreasing returns to large expenditures in public health and education, after basic coverage problems were solved.

Government expenditures in public health increased by 250%
Output of healthcare services grew only by 22%.

In education, following a tripling of public resources, learning scores initially surged, but did not continue to improve.

- Inefficient public health services
- Unaccountable school administrators
- Inefficient bureaucratic management of public hospitals
- Rigidity in hiring and firing practices
- Rigidities vis a vis wage negotiations
- Lack of incentives

Does not improve the poverty reduction impact of the first upsurge in increased social expenditures.

Public social services need to be reformed

- Flexibility
- Decentralization
- Incentive and user oriented

Traditional approach of improving the coverage of public services needed to be complemented

- Integrated family and community centered poverty eradication effort
- Focused towards indigent population and extreme poverty.

Studies estimate that 60% of the variance in school performance is explained by the socio-cultural and economic milieu in which a student’s family life develops.

This problem is known as the problem of poor social risk management vis a vis poor families.

A new, holistic approach is needed.

National Program of Poverty Eradication (1994)

- 80 municipal districts selected on the basis of their higher poverty ratios
- Inter-municipal coordinated effort
- Shortcomings
  - No additional resources where provided
  - Limited coverage
  - Focus on the individual and not on the family
  - Sectoral coordination problem among ministries

Chile Solidario (2002)

Family-centered, integral program designed to reduce the vulnerability associated to the condition of extreme poverty

- ✓ Focus on the total universe of the extremely poor (220 thousand families)
- ✓ Decentralized approach
- ✓ Families closely monitored by public officials
- ✓ Effective access to income-support subsidies and pub lic services
- ✓ Help in finding jobs and training for the head of house hold
- ✓ Strong motivational impact on the women involved

Shortcomings

- Paternalistic and clientelistic relationship
- Empowerment aspect does not seem to be workin g
- Families are not motivated to network with commu nity organizations
- Time-frame for each family to short

Gamsa Hamnida
Thank you
Gracias

Socio-Economic Disparity and Social Security in China

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Introduction

China has been experiencing rapid transitions since its economic reforms launched in the 1980s. In a large picture, one was from a command economy to a market based economy and the other was from an agricultural society to an urban, industrial one. In the past two decades, China's GDP grew on average by 9 per cent a year, contributing to a near quadrupling of per capita income. These reforms have lifted 200 million people out of poverty in a quarter century. The rise in income level of both rural and urban employees has considerably improved the living standard, and at the same time has brought about a large increase in their bank savings.

While the society still shows strong tendencies toward egalitarianism, the prevailing collective values are gradually being challenged by growing individualism, and the results of the reforms have shown wide income disparity. There are large disparities in wage income between the urban and rural residents, between different regions, and among the urban residents.

In the initial period of its transition, the average income of urban residents was about 2.5 times of their rural counterparts. In the mid 1980s, it declined to 1.8 because of policies undertaken by the country to boost rural income. With the acceleration of economic reform and increased investment in urban cities, it yielded in a greater disparity between the urban and rural areas. Empirical studies show that the ratio of rural and urban income is about 1/6. According to international practice, when the per capita GDP is between USD 800 to 1000, the income of urban residents should not be over 1.7 of rural residents. This explains why the Gini coefficient in 2000 reached 0.458 and has maintained this level in the past few years. This is a level above the warning level of 0.4. Therefore income disparity, a reflection of disparity between urban and rural areas as well imbalanced regional development between coastal provinces and interior ones, gives concern about China's sustainable economic development in the framework of its so-called *scientific development guidelines*.

China is also facing other problems such as laid-off and unemployment that did not exist under the planned economy, dissolution of its public medical services for urban employees and collective medical system for rural dwellers. With the introduction of population control policy during the initiation of China's reform and the ageing of the population, the pension system for state-owned enterprises was gone. The introduction of pension insurance for all employees of all forms of ownership was urgent in the mid 1980s and pension insurance scheme demands continued improvement. It is not just the pension insurance scheme in urban areas need attention, but also the rural pension insurance programs. It concludes with justification these challenges could stand as a potential threat in the country's development path.

The solutions to such social and economic problems are manifold. Reduction of agricultural tax is expected to leave a substantial amount of resources with the farmers to invest in cash crops. Flexibility on the labour movement helps transfer surplus labour in rural areas to urban cities. Subsidized education for the rural belt of the nation can spare to improve their subsistence in the short run and enhance the quality of rural population in the long run. Vocational training to rural migrant workers and other vulnerable groups of job-seekers give them better job opportunities. Under the new initiatives of Developing New Countryside and urbanization, rural infrastructure investment should boost up and allow the rural inhabitants to experience an urban life.

Theoretically, a country cannot avoid having increase in income and regional disparity during its early stages of changing to a market economy. Although various views exist, the majority agrees on placing primary importance on the development of a social security system that is suitable to Chinese context and the transition to market economy.

Social Security Development in China

Social security is one of the most important socio-economic systems for a country in modern times. To establish and improve a social security system responding to the level of economic development is a pre-requisite to coordinated economic and social development. It is also an important necessity for social stability.

China is the biggest developing country with a large population in the world, and its economic development level has yet to be lifted and the development between regions and between rural and urban areas is unbalanced. Establishing a sound social security system in China thus becomes an extremely arduous task.

In light of China's current situation and based on the principle of "putting people first," the Chinese authority ascribes high priority to establishing and improving its social security system. The recently passed amendment to the Constitution of the country stipulates that the state shall establish and improve a social security system that is suitable to the level of economic development. The Chinese Ministry of Labour and Social Security takes that social security development is a prerequisite for improving people's basic living.

For a long time before 1978, when China adopted the reform and opening-up policies, China had practiced a social security policy fit to its planned economic system, providing social security services to its people at the cost of low productivity. Since China shifted towards market economy system in the mid-1980s, a series of reforms have been introduced to change the old social security system practiced under the planned economy, and a basic framework of a social security system has been set up in China corresponding to the market economy system, with the central and local governments sharing specific responsibilities.

China's social security system includes social insurance, social welfare, the special care and placement system, social relief and housing services. As the core of the social security system, social insurance includes pension insurance, unemployment insurance, medical insurance, work-related injury insurance and maternity insurance

Pension Insurance

China is now an aging society. As the aging of the population quickens, the number of elderly people is becoming very large. This trend will reach its peak in the 2030s. To guarantee the basic living standards of the elderly and safeguard their legitimate rights and interests, the Chinese government has continuously improved the pension insurance system and reformed the financing of pension insurance in an attempt to establish a multi-level pension insurance system that could be sustainable on its own.

Promoting the Development of a Basic Pension Insurance System for Employees in Urban Areas

Reforming the basic pension insurance system for enterprise employees in urban areas had been debated for over a decade before it was launched. In 1997, the Chinese government unified the basic pension insurance system for enterprise employees in urban areas across the country by implementing a social pooling combing with individual accounts scheme. Enterprise employees who have reached retirement age (60 for male employees, 55 for female cadres and 50 for female workers) and who have paid their contribution for 15 years or more shall be entitled for pension benefits after their retirement.

Expanding the coverage of basic pension insurance has been an ongoing initiative. Initially, China's basic pension insurance covered only state-owned enterprises and collectively-owned enterprises in urban areas and their employees. In 1999, this coverage was expanded to include foreign-invested enterprises, private enterprises and other types of enterprises in urban areas, as well as their employees. All provinces, autonomous regions and municipalities directly under the Central Government can make provisions to include persons engaged in individual businesses of industry or commerce in the basic pension insurance in accordance with the specific conditions in their localities. In 2002 China expanded its basic pension insurance coverage to all forms of enterprises in urban areas. In 2005, the number of participants in the basic pension insurance scheme across China exceeded 160 million. In recent years, rural migrant workers are also included into the coverage.

Piloting schemes in selected areas to improve the basic pension insurance system became a test run aimed at making basic pension insurance a funded program. In 2001, the Chinese government began to carry out pilot projects to make individual accounts fully funded. The reform includes: gradually establishing funded individual accounts so that funds can be accumulated, and probing ways of preserving and increasing the value of the funds through fund investment; changing the way the basic pension is calculated and paid, whereby basic pension is more closely linked to the length of contribution. If an employee has participated in the basic pension insurance program and paid his/her contribution for 15 years and more, he or she will be entitled to a higher rate of pension for every additional year of contribution. The pilot project was first conducted in Liaoning Province, and has been expanded to Jilin and Heilongjiang provinces in 2004 and further spread to 9 provinces in China in 2006.

Raising Funds for Basic Pension Insurance through Multiple Channels

As the pace of population aging quickens and the number of retirees increases steadily, the pressure on the payment of funds for basic pension insurance is becoming ever greater. In order to make sure that basic pensions are paid in full amount and timely, the Chinese government is raising such funds through multiple channels.

Generally the contribution by enterprises will not exceed 20 percent of the total payroll, with the specific proportion being determined by provincial governments, autonomous regions and municipalities directly under the Central Government. Individual employees pay eight percent of their wages for pension insurance, whereas self-employed individuals and those who are employed in a flexible manner in urban areas pay an amount equal to about 18 percent of the average wage in their locality.

The state has called upon governments at all levels to adjust their financial expenditure structure and raise their input into social security. In 2003, state budgets at all levels contributed 54.4 billion Yuan toward basic pension insurance funds, of which 47.4 billion Yuan came from the central budget. The central government increased its subsidy to nearly 60 billion Yuan in 2005.

In 2000, the Chinese government decided to create a national social security fund. Its sources include: funds acquired from reducing state shareholding, stock ownership assets, funds from the central budget, funds raised by other means approved by the State Council, and investment returns. The national social security fund is administered by the National Social Security Fund Executive Council, and is operated on market principles in accordance with the procedures and requirements prescribed by the "Interim Measures for the Management of the Investment of the National Social Security Fund." The national social security fund provides an important financial reserve for the implementation of pension insurance and other social security programs.

Promoting Services for Pension Insurance that are Independent of Enterprises

In the past, Chinese enterprises were responsible for both the issuance of basic pensions to their own retirees and the administration of those retirees. Now, to ensure that all retirees receive their basic pensions in full and on time, and lessen the burden of social affairs on enterprises, the government is actively practicing the delivery of basic pensions by social service institutions. At the end of 2003, the basic pensions of retirees from enterprises were all delivered by social service institutions, and 84.5 percent of those retirees were under the administration of such institutions. This process had been completed by the end of 2005.

In 2003, the Chinese government began to implement an information-based labor security project, or popularly called "golden social security project," in order to raise the overall management level of social insurance and to meet the needs of the floating labor force to continue with their social insurance coverage once they change jobs. The goal of the project is to develop a nationwide computer network. So far the networking of pension insurance information between the Central Government and the provinces has been initially up and running.

Establishing a Multi-Level Pension Insurance System

In recent years, the Chinese government has made great efforts to build a multi-level pension insurance system. In addition to participating in the compulsory basic pension insurance, enterprises with suitable conditions may set up occupational schemes for their employees. Both enterprises and individuals will contribute to the occupational scheme, which will be funded and managed in the form of individual accounts. The enterprise annuity funds will be managed and operated in accordance with the market mechanism. In 2005, nearly 10 million people participated in the enterprise annuity program. In addition, the state also encourages individual savings for old age.

The first two decades of the 21st century will be a critical period in the development of China's pension insurance. The state will further improve the basic pension insurance system that combines social pooling and individual accounts, and gradually make the individual accounts to be fully funded. Basic pension insurance will extend to cover all eligible employees in urban areas, and at the provincial level the establishment and improvement of regulating funds for pension insurance will be carried out. Social pool at the city level shall be improved and gradually raised to that at the provincial level

Unemployment Insurance

While promoting the reform of the enterprise employment system and setting up a market-oriented employment mechanism, the Chinese government is speeding up the development and improvement of an unemployment insurance system to guarantee the basic livelihood of employees after they lose their jobs, to help them find new jobs, and accelerate the combination of the basic livelihood guarantee system for people laid off from state-owned enterprises with the unemployment insurance. By the end of 2005 there were over 100 million people who participated in the unemployment insurance scheme, which provided unemployment insurance benefits of varying time limits to over 7 million laid-off employees throughout the year.

Standardizing and Improving the Unemployment Insurance System

In 1999, the Chinese government promulgated the "Regulations on Unemployment Insurance," which effectively standardized and improved the unemployment insurance system.

All enterprises and institutions in urban areas and their employees must participate in the unemployment insurance program, under which employers pay two percent of their total wage bill and individuals pay one percent of their individual wages as unemployment insurance contribution.

Qualifying conditions for unemployment insurance. Laid-off persons must meet three requirements to qualify for unemployment insurance: having paid unemployment insurance premiums for at least one year; not having terminated their employment voluntarily; having registered as unemployed and being willing to be re-employed.

Rate of unemployment insurance allowance. The people's governments of provinces, autonomous regions and municipalities directly under the Central Government determine the unemployment insurance allowance in their own localities, which shall be lower than the minimum wage in their localities but higher than the minimum living allowance for urban residents. Provisions regarding the time limit during which one receives the benefits are as follows: An unemployed person whose former employer and himself or herself have continually paid unemployment insurance premiums for more than one year but less than five years is eligible for benefits for up to 12 months; if they have paid the premiums for more than five years but less than 10 years, the unemployed person is eligible for benefits for up to 18 months; if they have paid the premiums for more than 10 years, the unemployed person is eligible for benefits for up to 24 months.

Other unemployment insurance benefits. If an unemployed person falls ill while he/she is on unemployment insurance allowance, he or she is entitled to receiving medical subsidies. If the unemployed person dies during this period, his or her family can receive funeral allowances as well as a pension. In addition, an unemployed person may receive vocational training and subsidies for job agency services when receiving unemployment insurance allowance.

Unemployment insurance provisions for rural migrant workers who are employed by enterprises and institutions in urban areas have become a new feature of unemployment insurance. Their employers shall pay unemployment insurance contribution as required, while the individual workers shall not. Those who have worked for one year continuously, those who do not renew their contracts upon expiration or those who terminate their contracts before they expire can apply for a living allowance, which shall come in a lump sum depending on the length of time they have been employed.

Promoting Re-employment

While guaranteeing the basic livelihood of the unemployed, the state actively looks for effective ways to steer unemployment insurance in the direction of promoting re-employment. It has strengthened the link between unemployment insurance services and re-employment services. Through prompt registration of unemployment, active provision of employment information and giving comprehensive employment guidance and job agency services, the state helps unemployed people to enhance their capabilities for competitive employment in both skills and mentality. It also increases the input of unemployment insurance funds into job agency services and occupational training. Through organizing training directly or purchasing R and D achievements, the government provides all kinds of job skill training for the unemployed in order to improve their capabilities for re-employment.

Guaranteeing the Basic Livelihood of Laid-Offs from State-owned Enterprises

In 1998, in view of the increased pressure on state-owned enterprises in re-positioning their redundant personnel and the inadequate bearing capacity of the unemployment insurance, the Chinese government created the basic livelihood guarantee system for people laid off from state-owned enterprises.

Making sure that the laid-off personnel from state-owned enterprises receive their basic living allowances in full and on time requires ongoing efforts. Re-employment service centers have been established in all state-owned enterprises with laid-off personnel. After the latter have registered at a re-employment service center, they shall receive from it a basic livelihood allowance a little higher than the unemployment insurance payment in their own locality. The re-employment service center also pays pension, medical and unemployment insurance premiums for laid-off people. The centers' funds for basic living allowance payment to laid-off persons and their insurance premiums generally come from the following three sources: one third from the local government's financial budget, one third provided by enterprises, and the remaining one third from the social pool program (mainly from unemployment insurance funds). From 1998 to 2005, over 30 million laid-off persons from state-owned enterprises across China had registered at the re-employment service centers, and nearly 25 million of them had found new jobs. Those who had registered at the centers had received allowances for basic livelihood in full and on time, and the centers had also paid social insurance premiums for them.

Establishing the "three guarantees" system. Since 1998, the Chinese government has put into operation a system that provides for three guarantees: basic livelihood guarantee for laid-off persons from state-owned enterprises, unemployment insurance guarantee and minimum living standard guarantee for urban residents. Laid-off persons can receive a basic living allowance for up to three years. If they still have not found a job by then, they can receive unemployment insurance payments. If the per capita income of a family is below the local minimum living standard, they can apply for the minimum living standard guarantee for urban residents.

Integrating with unemployment insurance. With the steady improvement of the unemployment insurance system and the increase of the fund accumulations, since 2001, the basic livelihood guarantee system for laid-offs from state-owned enterprises has been integrated with the unemployment insurance program. State-owned enterprises now have ceased to establish any new re-employment service centers, and, in principle, people newly laid off by enterprises have also ceased to register at such centers. Instead the laid-off persons will then be entitled to unemployment insurance benefits according to relevant regulations.

For some time in the future, the problem of surplus labor force and the problem of irrational employment structure will still exist, and unemployment insurance will continue to face considerable pressure. The Chinese government will make every effort to expand the coverage of unemployment insurance, and standardize fund raising and payment as well as its use and management. While guaranteeing the basic livelihood of unemployed people, it will give further play to the role of unemployment insurance in promoting re-employment

Medical Insurance

In 1998, on the basis of previous trials, the Chinese government promulgated the "Decision on Establishing a Basic Medical Insurance System for Urban Employees," promoting a national reform of the basic medical insurance system for urban employees. By the end of 2003, some 109.02 million people around China had participated in the basic medical insurance program, including 79.75 million employees and 29.27 million retirees.

Establishing a Basic Medical Insurance System for Urban Employees

China has adopted a basic medical insurance system for urban employees that combines social pool and individual accounts. In principle, the medical insurance is managed locally.

The basic medical insurance program covers all employers and employees in urban areas, including employees and retirees of all government agencies, public institutions, enterprises, mass organizations and private non-enterprise units. People employed in a flexible manner can also participate in the basic medical insurance program. The funds for basic medical insurance come mainly from premiums paid by both employers and employees: the premium paid by the employer is about six percent of the total wage bill, while that paid by the employee is two percent of his or her wage. Retirees are exempted from paying the premiums. The individuals' premiums and 30 percent of the premiums paid by the employers go to the individual accounts, and the remaining 70 percent of the premiums paid by the employers goes to the social pool program funds.

Medical expenses are shared by the medical insurance fund and the individual: Outpatient treatment fees (smaller amounts) are mainly paid from the individual account, while hospitalization expenses (larger amounts) are paid mainly from the social pool fund. The minimum and maximum payments from the social pool fund are clearly set out. The minimum payment is, in principle, about 10 percent of the average annual wage of local employees, and the maximum payment is about four times the average annual wage of local employees. The medical expenses between the minimum and maximum standards are mainly paid from the social pool fund, and the individual pays a certain proportion. Expenses paid by retirees for medical treatment and medicine are reasonably lower than those paid by people in employment.

Improving Medical Insurance Management and Services

To standardize medical services and reduce costs, the state simultaneously promotes the reform of the basic medical insurance system, medical and healthcare system, and pharmaceuticals production and circulation system. Catalogues have been made of medications, medical consultations and medical services and facilities covered by the national basic medical insurance scheme. Efforts have been made to ensure that the insured enjoy necessary medical services, to curb unreasonable medical expenses, and to enhance the utilization efficiency of the basic medical insurance fund. A management method of the designation of medical institutions and pharmacies allowed to provide services covered by medical insurance has been put into practice. A competitive mechanism has been established to select and designate medical institutions and pharmacies that operate in a standard manner and provide good services. Meanwhile, account settlement procedures have been formulated and steadily improved for medical insurance handling organizations and designated medical institutions.

Improving the Multi-Level Medical Security System

While establishing the basic medical insurance system, to meet the medical demands of different types of people covered by the insurance, the state has established and improved a multi-level medical security system to reduce individual burdens on the insured individuals. In local areas, a system of subsidies for large medical expenses has been set up in accordance with actual conditions to settle medical expenses exceeding the maximum limit of the basic medical insurance payment, the funds for the subsidies being raised mainly from individuals or enterprises. The state encourages enterprises to establish supplementary medical insurance for their employees, mainly for settling medical expenses not covered by the enterprise employees' basic medical insurance. The part of the enterprise's supplementary medical insurance premiums that is within four percent of the total wage bill is booked as the production cost. A civil servants medical subsidy system has been established for civil servants and employees of public institutions who formerly enjoyed free medical services. The state is gradually establishing a social medical aid system mainly funded by the government to provide basic medical security for people with special difficulties.

The reform of China's medical insurance system faces many heavy tasks. In future, the state will further expand the coverage of medical insurance to steadily include eligible people in all kinds of employment in urban areas in the basic medical insurance scheme; strengthen and improve medical insurance management and services; curb the irrational increase of medical expenses, and provide better services for the insured; establish and improve a multi-level medical security system, gradually lessen individual burden on the insured, and realize the stable operation and sustainable development of the medical insurance system.

Work Injury Insurance

The Chinese government has made great efforts to establish an insurance system for work-related injuries that includes work-related injury prevention, compensation and recovery. After January 2004, when the "Regulations on Insurance for Work-related Injuries" went into effect, the coverage of such insurance has expanded rapidly. By the end of May 2006, as many as 88 million employees had underwritten this insurance scheme.

Establishing a Social Pool System for Insurance Funds for Work-related Injuries

The state stipulates that all enterprises and all individual businesses engaged in industry and commerce with employees must participate in work-related injury insurance, and pay insurance premiums for all their employees, permanent as well as temporary. The individual employees do not pay such premiums. The work-related injury insurance scheme adopts a social pool fund program with a balance of revenue and expenditure, and collection determined by expenditure. The social pool funds are established by cities at the prefectural level or above. The government determines the differential premium rates according to the degree of risk of work-related injuries involved in different sectors, and sets several premium rates within each sector according to the insurance payments and occurrence rates of such injuries.

Defining the Social Security Benefits

The work-related injury insurance scheme adopts the principle of "no-fault compensation." The benefit items mainly include medical expenditures for work-related injuries; injury and disability subsidy, allowance and nursing fee according to the degree of loss of the ability to work; funeral subsidy, pension for the keep of family members and a lump-sum death subsidy payment, all of which go to the directly-related family members of the deceased worker in the case of death resulting from a work-related accident. The main qualifying condition for insurance payment is that the employee has been injured as a result of a work-related accident or has contracted an occupational disease during his or her working hours and within his or her workplace.

Exercising a Labor Ability Assessment System

The state has uniformly formulated and promulgated a national standard for assessment of the degree of a work-related injury and the degree of a disability caused by an occupational disease, whereby to assess the labor ability of an employee suffering from disability and whose labor ability has been affected due to a work-related injury, notwithstanding its being in a relatively stable condition after treatment. The labor ability assessment includes rating of the degree of physical impediment for labor and the degree of impairment to self-care ability. A labor ability assessment committee, consisting of representatives from relevant departments of the government, trade unions and employing units, is formed in each provincial-level city and city divided into districts to be in charge of the assessment of labor ability of injured and maimed employees. Application for labor ability assessment can be submitted by the employing unit, the employee suffering from the injury, or his or her directly-related family members, to the local committee. Having received the application, the committee will randomly choose members from its reserve of medical and health experts to conduct the assessment, and give its assessment conclusion based on the experts' opinions.

Strengthening Work-related Injury Prevention and Occupational Rehabilitation

The Chinese government actively promotes prevention of work- related injuries and occupational diseases through improvement of engineering technology, publicity and education, formulation of safety regulations, implementing safety and hygiene standards, and encouraging employing units to improve production safety by manipulating their injury insurance premium rates. Following the principle of "safety and prevention first," the government urges enterprises and employees to abide by the rules and regulations concerning work safety and hygiene, and to strictly enforce the state work safety and hygiene rules and standards, so as to prevent accidents during work, and reduce occupational hazards.

The state actively explores methods of occupational rehabilitation, providing injured workers with injury recovery, psychological recovery, occupational training and employment guidance. Occupational rehabilitation centers and hospitals have been set up in some areas to help injured workers to overcome physical and mental problems, regain their health and ability to work, and return to their jobs

Maternity Insurance

In 1988, the state introduced a reform of the maternity insurance system in some areas.

The maternity insurance system mainly covers urban enterprises and their employees, and in some places women employees of government agencies, public institutions, mass organizations and enterprises. The premiums are paid by the employers participating in the maternity insurance scheme, and should not be more than one percent of the total wage bill. Individual employees do not pay the premiums. Employers not having participated in the scheme will still be responsible for providing maternity insurance benefits. Employees giving birth to babies may enjoy a childbirth allowance for 90 days according to law. Women employees who have given birth to babies or had abortions shall maintain their original wages and positions, and get reimbursements for their medical expenses according to related regulations

Social Security in Rural Areas

The majority of the Chinese people live in rural areas, where the economic development level is comparatively low. In the rural areas the land, as a means of both production and livelihood, is owned collectively where the contractual household output-related responsibility system is practiced. Under the influence of China's traditional culture, there is a time-honored tradition of provision by the family, security coming from self-reliance and help from the clan. In accordance with the characteristics of rural socio-economic development, the state's social security measures in rural areas are different from those practiced in cities.

Experimenting to Establish a Pension Insurance System in Rural Areas

The old-age security in China's rural areas is centered mostly on families. In the 1990s, China began to try out pension insurance system in some of the rural areas in accordance with the actual level of local socio-economic development. In light of the principle that "the premiums are paid mainly by individuals themselves, supplemented by collectively pooled subsidies and supported by government policies," a pension insurance system with the accumulation of funds taking the form of individual accounts was established. By the end of 2003, the work of pension social insurance had been carried out to various extents in the rural areas of 1,870 counties (cities, districts). Some 54.28 million people had underwritten the pension insurance program, which had accumulated a fund running to 25.9 billion Yuan, with 1.98 million farmers drawing pension pension. In 2004, the Chinese government began to experiment with a system that supports and rewards households that practice family planning by having only one child or two girls in some of the rural areas.

Establishing a New Rural Cooperative Medical Service System

In order to guarantee that farmers' basic medical needs are satisfied, to alleviate their medical burdens and to address the problem of poverty caused by illness or prevent them from getting poor again because of illness, in 2002 the Chinese government began to set up a new rural cooperative medical service system. Farmers can participate freely in such a cooperative medical system, which is organized, led and supported by the government with funds coming from the government, collectives and the beneficiaries. At present, the system is being tried out in 310 counties (cities) in 30 provinces, autonomous regions and municipalities directly under the Central Government. By June 2004, the system had covered 95.04 million rural residents, with 68.99 million participants and 3.02 billion Yuan in raised funds, of which 1.11 billion Yuan was in the form of financial subsidies from local governments at various levels, and 390 million Yuan was in the form of Central Government subsidies to the central and western regions.

Conclusion

After years of experiments and practice, a social security framework with Chinese characteristics has taken initial shape. However, China still has a long way to go to develop its social security services to a satisfactory level. The aging of the population will put more pressure on the pension and medical expenditure, while the progress of urbanization will make the establishment and improvement of a social security system covering both urban and rural areas more urgent. More employees of non-state-owned businesses and people employed in a flexible manner will be covered by the social insurance system as employment forms become more diversified. All this will raise new requirements for the smooth operation of China's social security system and for the establishment of a long-term mechanism which will ensure the sustainable development of the social security services.

To press ahead with the improvement of the social security system is an important task for the Chinese government in its efforts to build a moderately prosperous society in a comprehensive way. The increase in China's overall economic strength as a result of the sustained, rapid, coordinated and healthy development of China's national economy, the implementation of the scientific concept of overall, coordinated and sustainable development, and a social security system suited to China's national conditions and established after many years of exploration, will pave the way for China's social security system to develop continuously. In the years to come, the Chinese people will benefit more from the nation's development and progress, and enjoy more plentiful fruits of its material achievement.

APEC is about promoting economic prosperity and stability in the region. There is no doubt that social security system greatly contributes to the economic growth and welfare of the people in the Asia and the Pacific region. On this positive note, we will be more than happy to build constructive cooperation relations with international organizations, such as ADB, OECD and SSNCBN in the framework of the APEC, to explore model policy examples that help reduce the socio-economic disparity and share the benefits generated by trade liberalization and economic growth.

The Present Condition of Economic Inequality in Japan

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APEC Symposium on Socio-economic Disparity
Seoul, Korea
29/06/2006

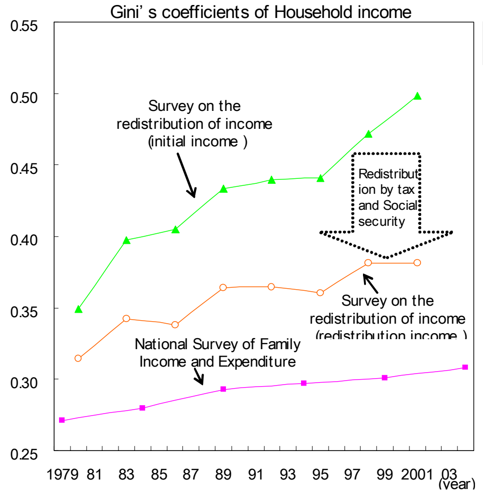
Introduction

~ Economic inequality in a social phenomenon ~

Social phenomenon	Example
Inequality of income and consumption	・A higher income bracket purchases quality articles. ・A lower income bracket purchases cheap daily necessaries.
Inequality of wages	・Introduction of the performance-based system of a company. ・The difference of IT knowledge by the side of laborers.
Social inequality	・Poverty of the educational opportunity of a low income bracket. ・Poverty of job opportunity of young part-timer (so-called “Freeter” in Japan) etc.
Social problem	・The increase in a family on welfare. ・The increase in the number of suicide.

Income Inequality ①

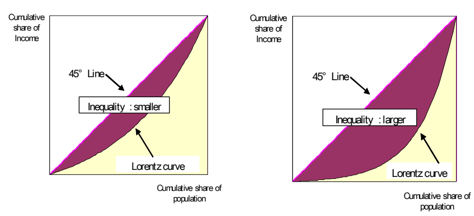
○Income inequality shows a moderate expansion on statistics・・・



Source: National Survey of Family Income and Expenditure (Ministry of Internal Affairs and Communications) , Survey on the Redistribution of Income (Ministry of Health, Labour and Welfare)

Gini Coefficient

is defined as the area between Lorentz curve (which plots cumulative shares of the population, from the poorest to the richer, against the cumulative share of income that they receive) and the 45°Line, taken as a ratio of the whole triangle.



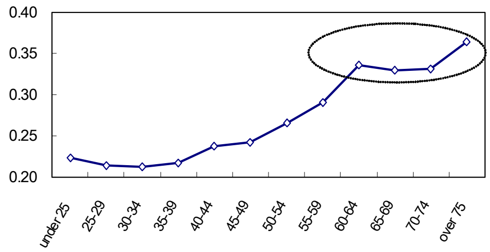
Income Inequality ②

○But expansion of income inequality is based on the influence of aging and reduction of a household size.

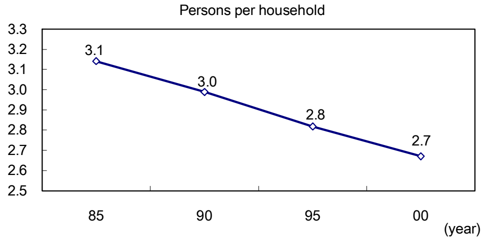
・ Gini coefficint of old age, whose population is increasing rapidly in Japan, is relatively high.

・ Reduction of household size, because of increase in nuclear family or single household in Japan, causes increase of Gini coefficient for increase of low income household.

Gini's coefficients of household income by age group of household head



Persons per household

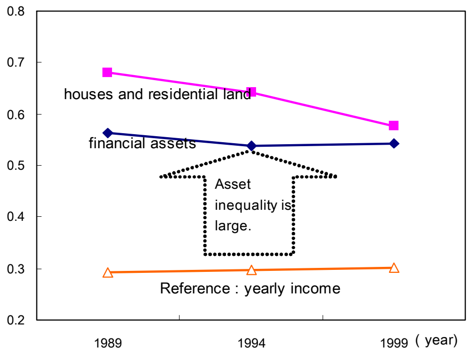


Source: National Survey of Family Income and Expenditure in 2004 : (Ministry of internal Affairs and Communications)

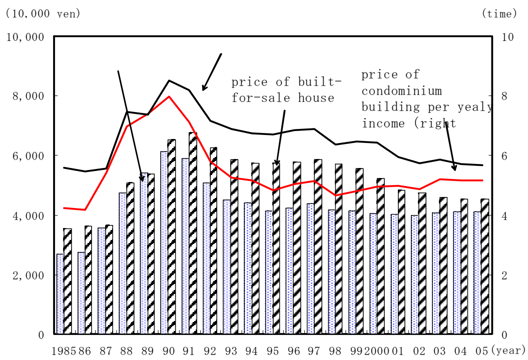
Asset Inequality

○Inequality of assets such as houses and residential land shows the tend ency to reduce, though assets inequality is larger than income inequality.

Gini's coefficients of household assets



House prices of a metropolitan area per yearly income



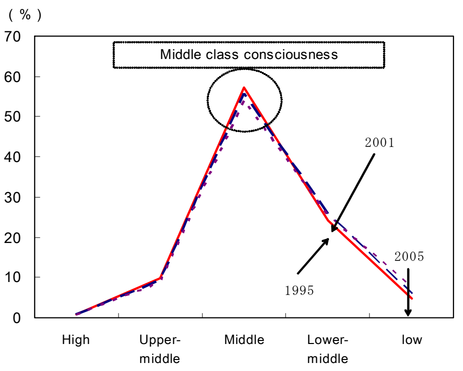
Source: National Survey of Family Income and Expenditure (Ministry of International Affairs and Communications)

Source: Trends in mansion market in Japan (Real Estate Economic Institute Co., LTD), Family Income and Expenditure Survey, Trends in Saving (Ministry of Internal Affairs and Communications)

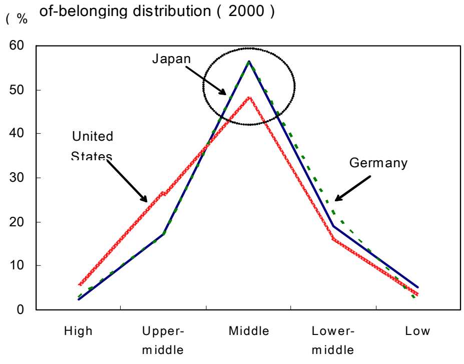
Life Consciousness

○The rate of the middle class consciousness among Japanese people has not be changed for the past ten years.

Consciousness of the grade of a



International comparison of a social stratification sense-of-belonging distribution (2000)



Source: The opinion poll about the life of the people in Japan, Cabinet Office

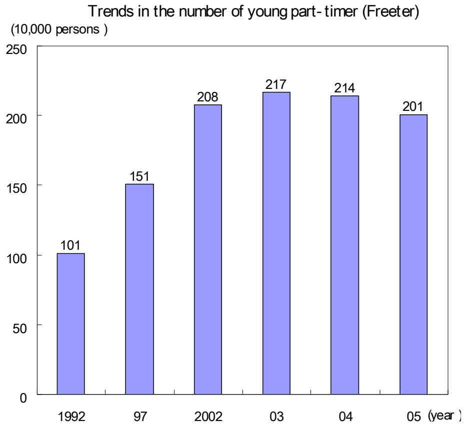
Source: Ishida (2003)

Problem on young workers

○Non-regular workers, such as ''Freeters'' etc. without the employment security by the company, have little mobility to regular employment. There is a possibility that dualism of employment may progress.

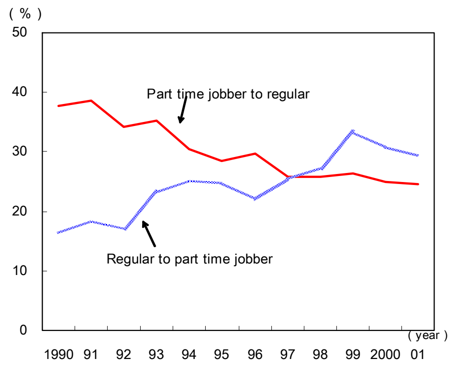
○The measures of man-power development and local supports are important for their independence.

Trends in the number of young part-timer (Freeter)



Source: 2005 White Paper on the Labour Economy (Ministry of Health, Labour and Welfare) Labour Force Survey (Detailed) (Ministry of Internal Affairs and Communications)

The rate of those who change their employment and become a full-time employee falls.(age 15-34)



Source: 2003 White Paper on the National Lifestyle, Cabinet Office

Conclusion
~ Present condition of economic inequality in Japan ~

○Although the inequality of income, property, etc. are pointed out as expansion of economic inequality, essential increase cannot be found out from statistics data.

○As middle-class consciousness is deep-rooted, the expansion of inequality in individual life feelings is not found out.

○However, the change of the younger age group's employment / life form, (such as ''Freeter'') can become the factor of crucial increase in inequality, so needs to be warned.

Session 2: Continued

Presentations

Ross Judge, General Manager for Strategic Social Policy,
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Javier Edmundo Abugattas Fatule, Vice Minister of Economy,
Ministry of Economy and Finance, Peru

Pattama Teanravisitsagool, Director of Macro-economic Policy Office,
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New Zealand: The Social Report and Socio-Economic Disparities

Ross Judge
General Manager for Strategic Social Policy,
Ministry of Social Development, New Zealand

New Zealand Social Report

MINISTRY OF SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora

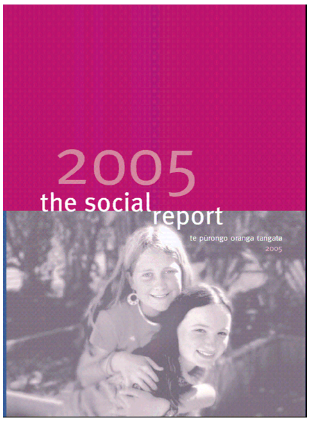
New Zealand context

- 4 million people
- 80% European/British immigrants from 1840
- 15% indigenous Maori
- 7% Pacific
- 7% Asian (recent growth)
- relatively high fertility
- 30% of families with childrn one-parent hshlds
- 86% urban

New Zealand Social Report

MINISTRY OF SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora

The Social Report



- measures the level and distribution of social wellbeing
- ten desired social outcomes or ‘outcome domains’
- uses 42 indicators
- www.socialreport.msd.govt.nz

New Zealand Social Report

MINISTRY OF SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora

Purpose

- To provide measures of wellbeing and quality of life – both level and distribution
- To provide greater transparency and inform public debate

New Zealand Social Report

MINISTRY OF SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora

Ten Domains

- Health
- Knowledge and Skills
- Paid Work
- Economic Standard of Living
- Civil and Political rights
- Cultural Identity
- Leisure and Recreation
- Physical Environment
- Safety
- Social Connectedness

New Zealand Social Report

MINISTRY OF SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora

Health Domain

Health

All people have the opportunity to enjoy long and healthy lives. Avoidable deaths, disease, and injuries are prevented. All people have the ability to function, participate and live independently or appropriately supported in society.

New Zealand Social Report

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Te Manatū Whakahiato Ora

Health Indicators

- Health expectancy
- Life expectancy
- Suicide
- Prevalence of cigarette smoking
- Obesity

New Zealand Social Report

MINISTRY OF SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora

Indicator information

Definition

Relevance to wellbeing

Current level and trends

Subgroups →
- age
- ethnicity
- socio-economic status
- region
- sex
- family type

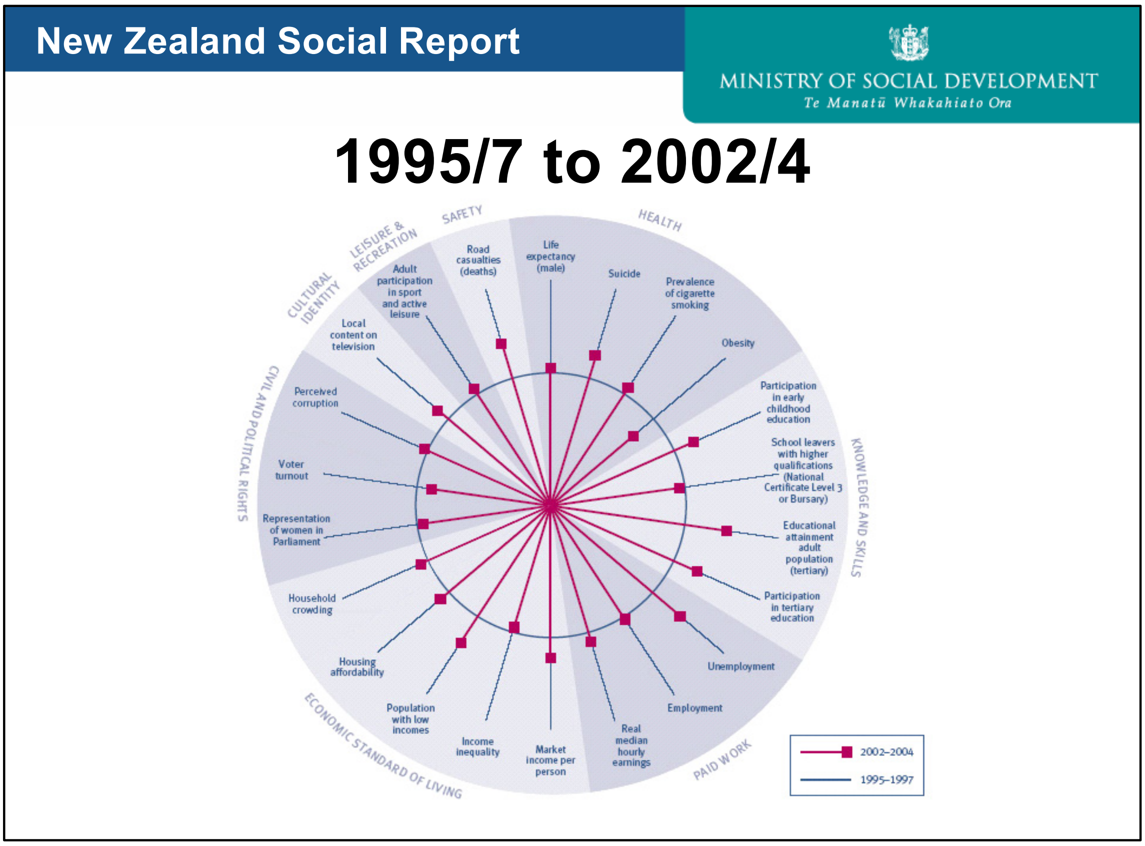
International comparison

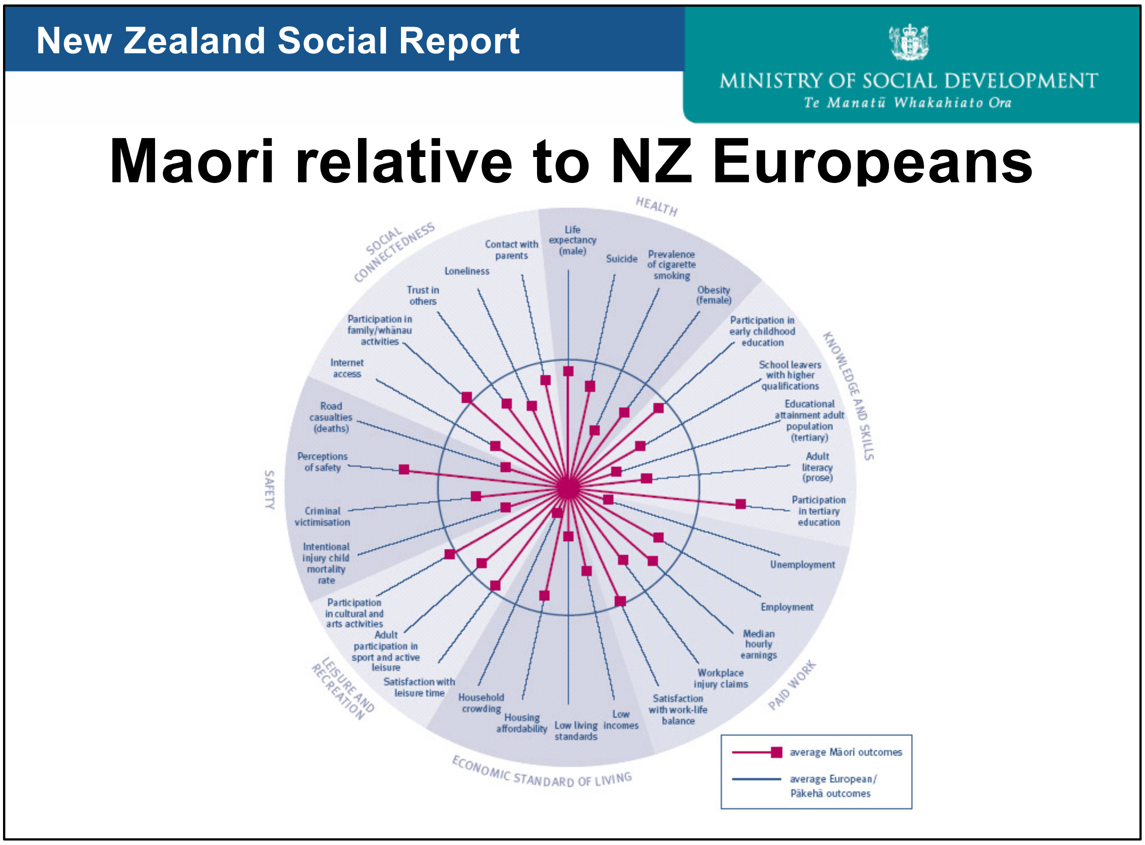
New Zealand Social Report

MINISTRY OF SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora

Conclusion of the Report

- **Changes in wellbeing over time**
- **Regional variation**
- **Ethnic differences**
- **Gender differences**
- **Compared to the OECD**

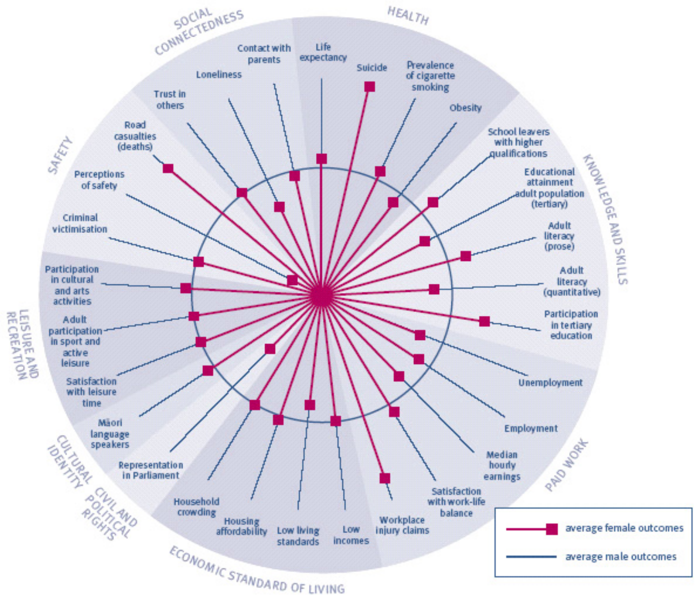

New Zealand Social Report
MINISTRY OF SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora
1995/7 to 2002/4
HEALTH
KNOWLEDGE AND SKILLS
PAID WORK
ECONOMIC STANDARD OF LIVING
CIVIL AND POLITICAL RIGHTS
CULTURAL IDENTITY
LEISURE & RECREATION
SAFETY
Life expectancy (male)
Suicide
Prevalence of cigarette smoking
Obesity
Participation in early childhood education
School leavers with higher qualifications (National Certificate Level 3 or Bursary)
Educational attainment adult population (tertiary)
Participation in tertiary education
Unemployment
Employment
Real median hourly earnings
Market income per person
Income inequality
Population with low incomes
Housing affordability
Household crowding
Representation of women in Parliament
Voter turnout
Perceived corruption
Local content on television
Adult participation in sport and active leisure
Road casualties (deaths)
2002–2004
1995–1997


New Zealand Social Report
MINISTRY OF SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora
Maori relative to NZ Europeans
HEALTH
KNOWLEDGE AND SKILLS
PAID WORK
ECONOMIC STANDARD OF LIVING
LEISURE AND RECREATION
SAFETY
SOCIAL CONNECTEDNESS
Life expectancy (male)
Suicide
Prevalence of cigarette smoking
Obesity (female)
Participation in early childhood education
School leavers with higher qualifications
Educational attainment adult population (tertiary)
Adult literacy (prose)
Participation in tertiary education
Unemployment
Employment
Median hourly earnings
Workplace injury claims
Satisfaction with work-life balance
Low incomes
Low living standards
Housing affordability
Household crowding
Satisfaction with leisure time
Adult participation in sport and active leisure
Participation in cultural and arts activities
Intentional injury child mortality rate
Criminal victimisation
Perceptions of safety
Road casualties (deaths)
Internet access
Participation in family/whānau activities
Trust in others
Loneliness
Contact with parents
average Māori outcomes
average European/Pākehā outcomes

New Zealand Social Report

MINISTRY OF SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora

Women relative to Men



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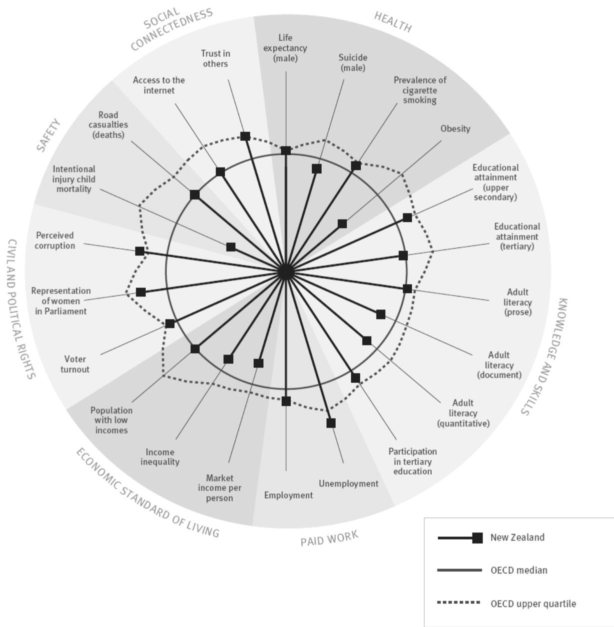
Te Manatū Whakahiato Ora

NZ relative to OECD

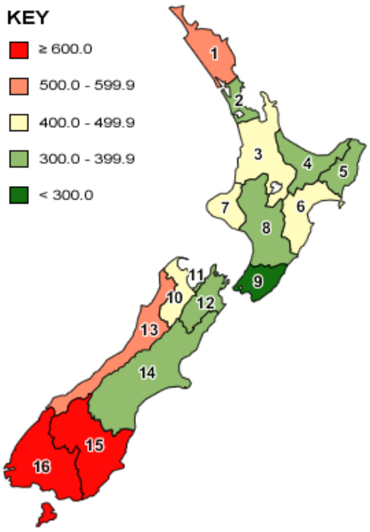


New Zealand Social Report

MINISTRY OF SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora

Regional and Local data

Road Casualties (injuries)



Where data is available we publish:

22 indicators for 16 Regions – including maps

16 indicators for 74 Local authorities

New Zealand Social Report

MINISTRY OF SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora

Conclusion

- The Social Report has gained widespread support in New Zealand
- Key features have been
  - indicators have a clear meaning
  - presentation is clear and simple
  - authoritative choices and data

Socio-Economic Disparity: Learning from Recent Experience in Peru

Javier Abugattás
Vice Minister of Economy
Ministry of Economy and Finance, Peru

BACKGROUND

Complex reality. APEC economies, Latin America, Peru.
Heterogeneity, diversity, disparity.

MAJOR FACTORS

Population, basic needs, employment, resources, organization.
Demographic, epidemiological and environmental changes

"investment liberalization greatly contributes to the economic growth"…. But … welfare of the people in the APEC region is not improving enough.

Disparty is refleted in social, economic, environmental, cultural aspects. Fragmentation is a risck And … we have limitations in the perception and description of a complex reality.

No enough awareness and action in: employment, one year before and after each birth, local management capacity.

POLICY EXPERIENCES

Models are complex, dynamic and interactive. Complexity perhaps demand simple actions.

"a view to ensuring that all people have the opportunity to"

PRELIMINARY CONCLUSION

Don't assume homogeneity for the design, implementation, monitoring and correct development policies and programs.

Our heterogeneity may turn out to be an advantage. We are not fighting against diversity but against disparity.

PRELIMINARY RECOMMENDATIONS

A) Integrate social-economic and environmental policies

B) In addition to long-term goals is URGENT to tackle with clear results two basic aspects (to begin with) in economies were disparity is high.

1. Safeguard human potential in all the population. Special attention should be put in the period between one year before and after of each birth. (10 million a year in Latin America).
2. Strongly promote small private business at local level at the same time than liberalization and trade is generating growth in the modern part of our economies.

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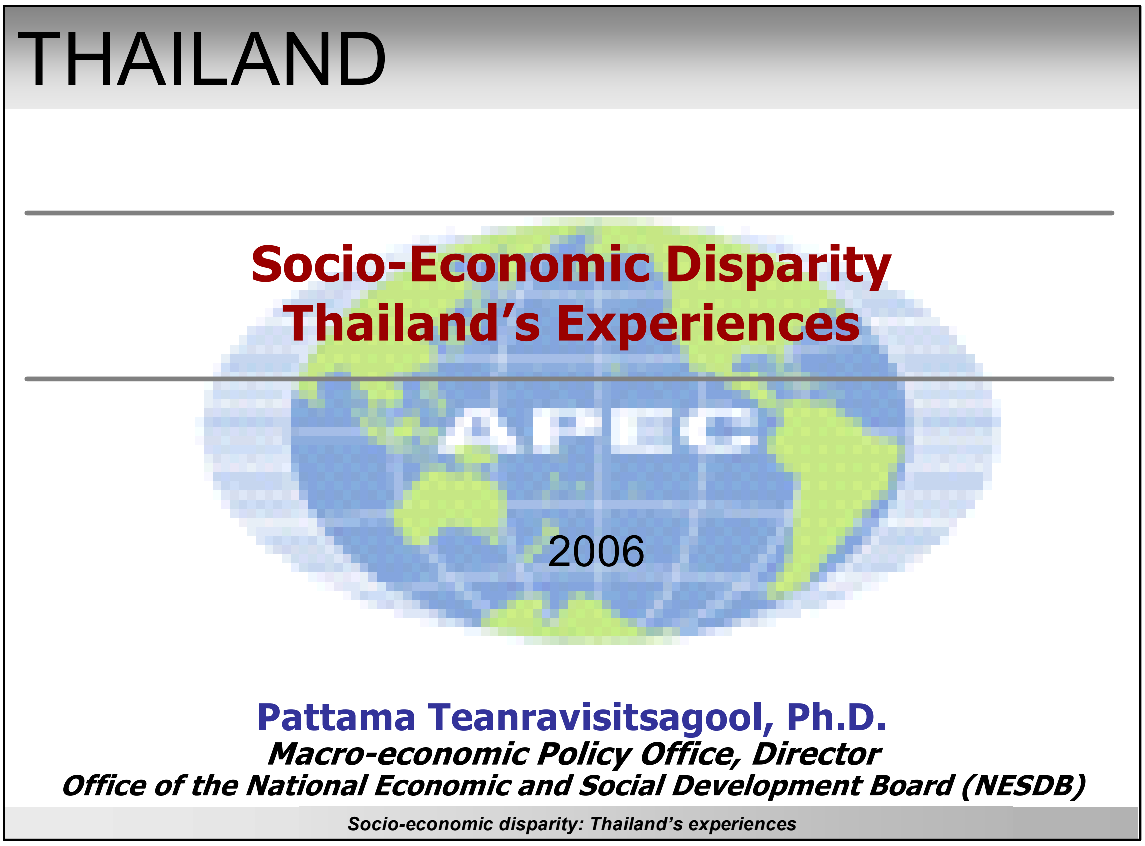
ECLAC : "The millennium development goals: a latin american and caribbean perspective". August 2005.

Role of Integrated Social Policy Advice. Javier Abugattás and Jorge Chateau 1995. (http://www.idrc.ca/es/ev-9296-201-1-DO_TOPIC.html)

Socio-Economic Disparity: Thailand's Experiences

Pattama Teanravisitsagool
Director, Macro-economic Policy office,
Office of the National Economic and
Social Development Board, Thailand



Outline of Presentation

Backgrounds on economic and social development in Thailand: poverty and disparity

Major factors

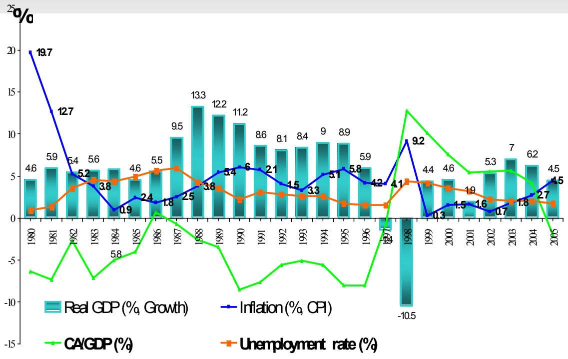
Policy experiences

Backgrounds: growth and poverty

Economic growth reduced poverty

Through employment and income generation

The Thai economy has recovered since 1999 with moderate growth path



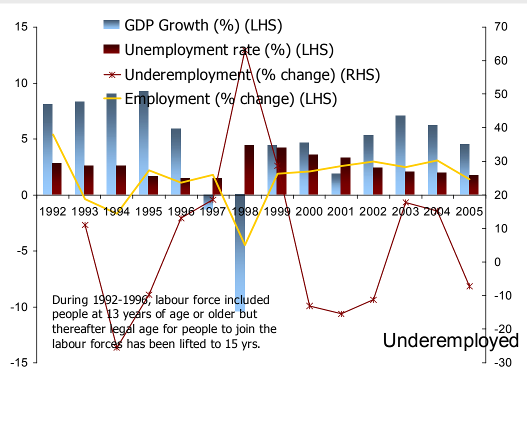
	1999	2000	2001	2002	2004	2005
GDP	4.6	4.8	2.2	5.3	6.2	4.5
Inflation	0.3	1.5	1.6	0.8	3.3	4.6
CA/GDP	10.1	7.5	5.4	5.5	4.2	−2.0
Unemp. rate (%)	4.2	3.6	3.2	2.2	2.0	1.7

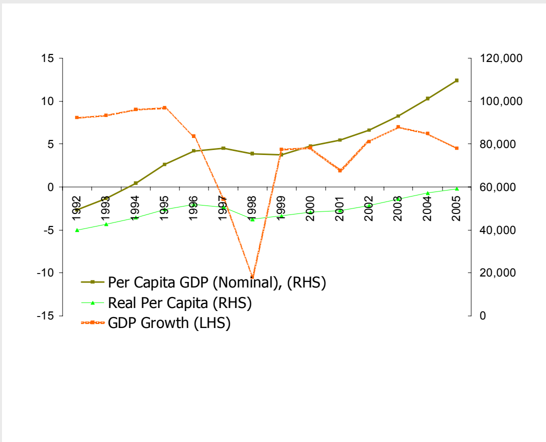
- The Thai economy has moved from high growth period in the 1980s and early 1990s to a moderate growth path with restored stability after the crisis
- Economic growth has been sustained at a satisfactory level since 1999, except for 2001 when the world economy slowed down quite sharply.
- The stability has been restored with stabilized exchange rate, low inflation, drop in unemployment rate, CA surplus, and replenished international reserves at an ample level measured in terms of short-term foreign debt and imports.
- However, rising oil prices since 2004 has placed Thailand at risks, worsened by drought in late 2004 that continued in H1/2005, and impacts of tsunami felt throughout 2005.
- In 2006, rising oil prices and uncertainty in the political situation has dampened public confidence, amidst rising interest rate to fight against surge in inflation
- Poverty problem is again at risk.

Socio-economic disparity: Thailand's experiences

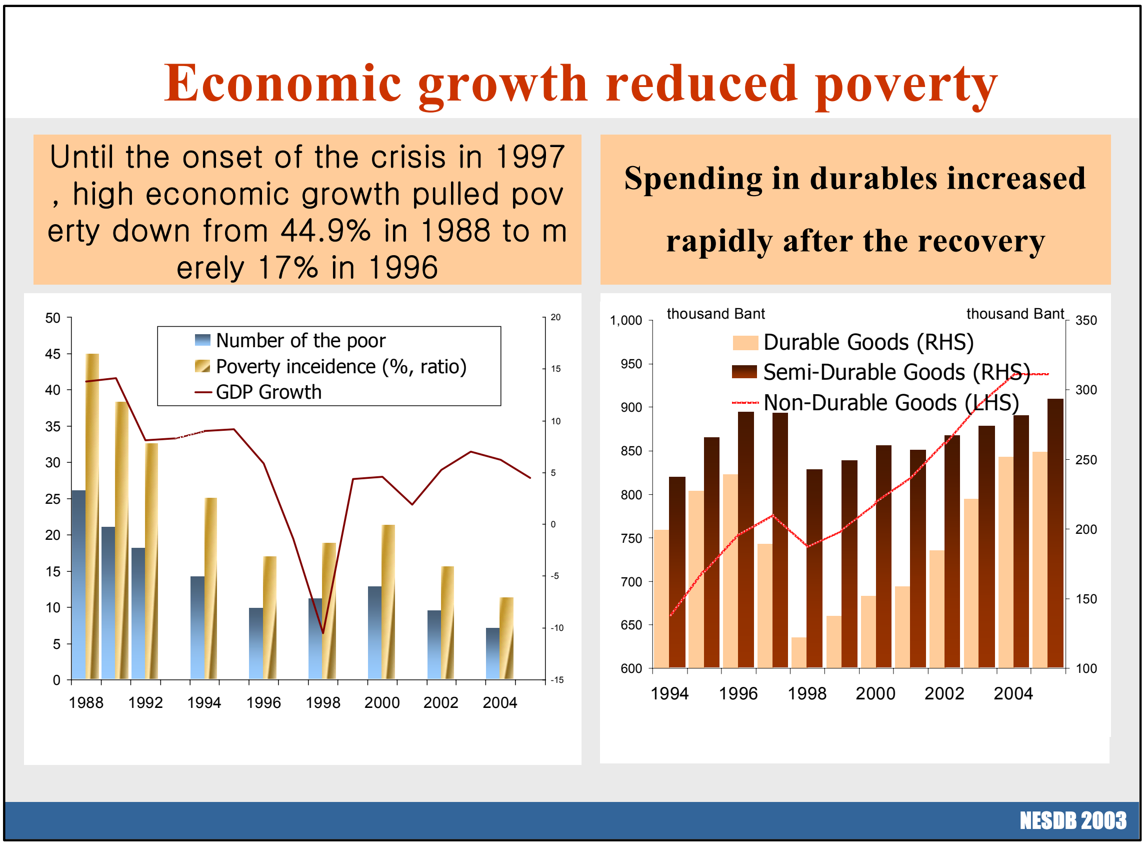
Economic growth generated employment and income

Economic growth generated employment and increased per capita income, both in real and nominal terms.

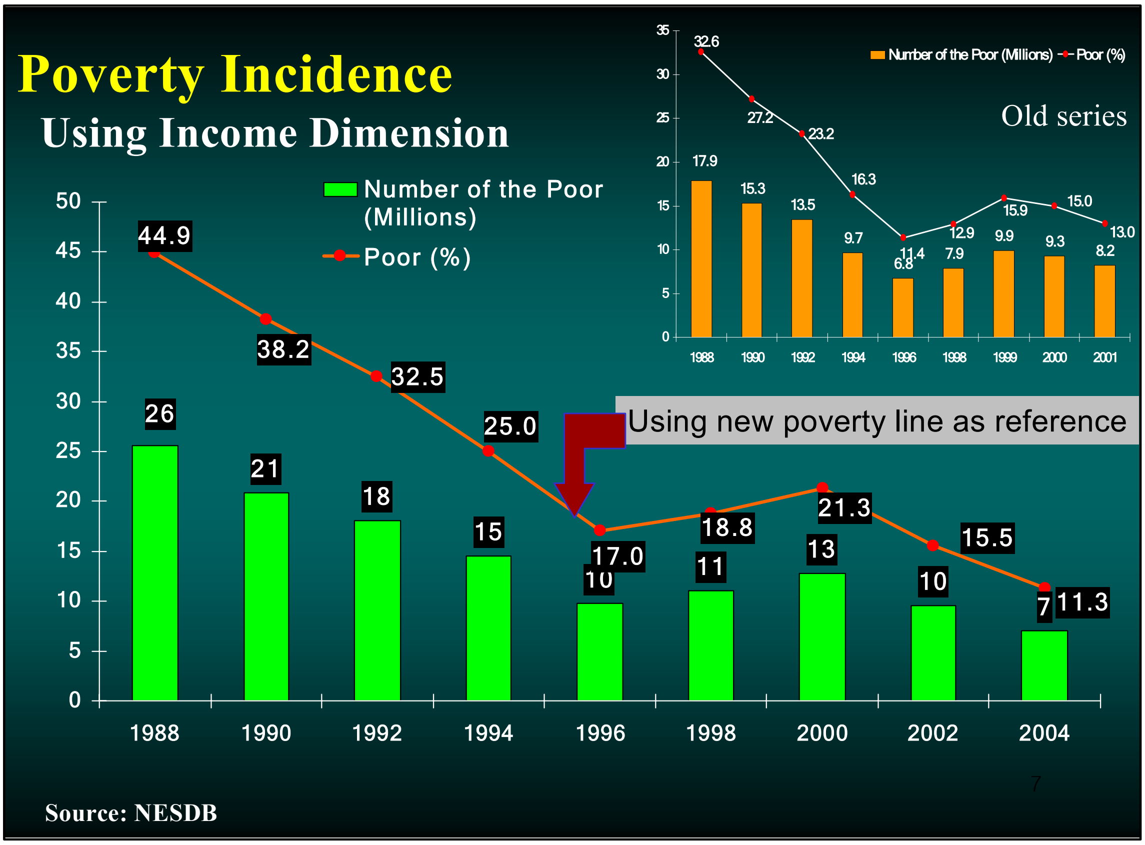




NESDB 2003

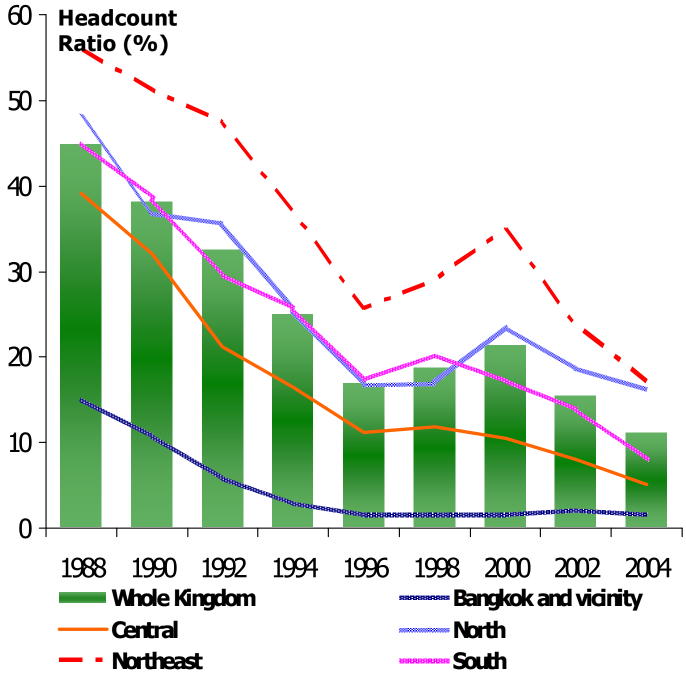


Economic growth reduced poverty
Until the onset of the crisis in 1997 , high economic growth pulled poverty down from 44.9% in 1988 to merely 17% in 1996
Spending in durables increased rapidly after the recovery
Number of the poor
Poverty inceidence (%, ratio)
GDP Growth
1988
1992
1994
1996
1998
2000
2002
2004
thousand Bant
thousand Bant
Durable Goods (RHS)
Semi-Durable Goods (RHS)
Non-Durable Goods (LHS)
1994
1996
1998
2000
2002
2004
NESDB 2003



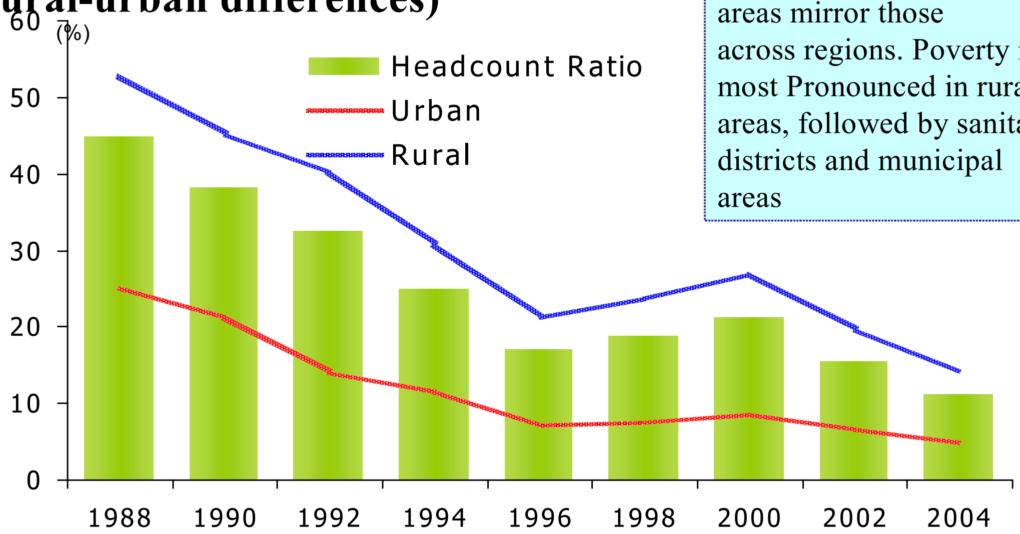
Poverty Incidence
Using Income Dimension
Number of the Poor (Millions)
Poor (%)
44.9
38.2
32.5
25.0
17.0
18.8
21.3
15.5
11.3
26
21
18
15
10
11
13
10
7
1988
1990
1992
1994
1996
1998
2000
2002
2004
Number of the Poor (Millions)
Poor (%)
Old series
Using new poverty line as reference
Source: NESDB

Poverty incidence by regions (Regional variations)



- ❑ The head-count ratio of poverty, based on new established poverty line, fell continuously from 1988 to 1996.
- ❑ But then reversed itself and increased in 1998 to 2000.
- ❑ The poverty incidence has improved since 2002, due to Strong economic recovery.
- ❑ The North and Northeast were mostly hit by the crisis, as far as the poverty problem is concerned. This linked directly to the unemployment problem after the crisis as a consequence of labour laid off from factories.
- ❑ The evidence suggests that poverty has declined more rapidly in the better off regions than in the poorer region

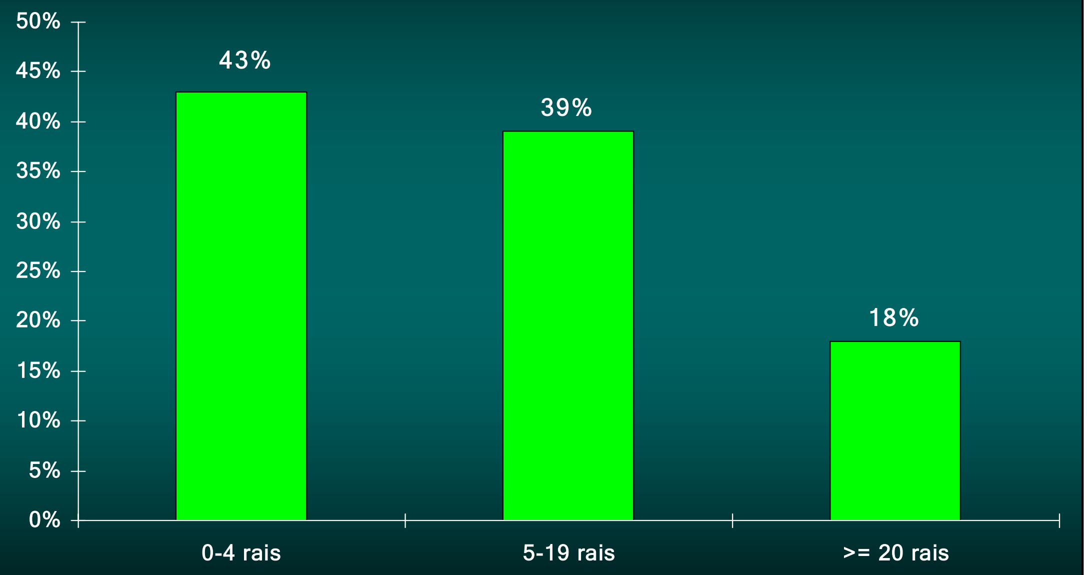
Poverty Situations 1988-2004 (Rural-urban differences)



The differences in poverty across rural and urban areas mirror those across regions. Poverty is most Pronounced in rural areas, followed by sanitary districts and municipal areas

Head-count ratio is the proportion of the population with incomes below an established poverty line. The official poverty line for Thailand was established by NESDB in 1998. The national average of the official poverty line was 878 baht per person per month in 1998 and 886 baht in 1999 which was significantly lower than minimum wage. NESDB has recently increased the established line to 1230 baht/month/head.

Poverty and Land Holding



Source: NESDB

Backgrounds: growth and distribution

Evidence already showed that in Thailand economic growth pulled down poverty

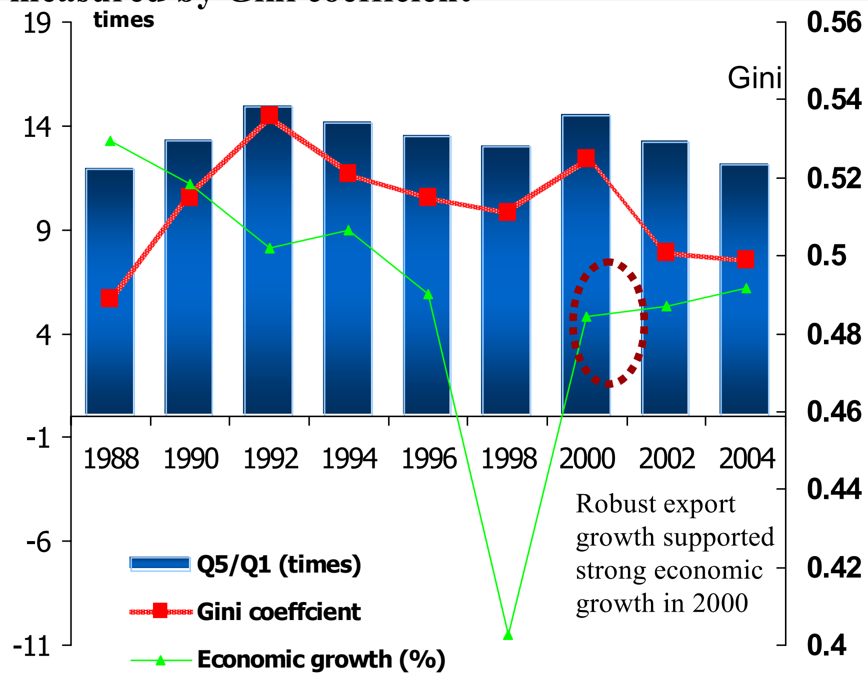
Now the question is whether it is trickle-down growth or it is pro-poor growth?

Notes:

1. Trickle-down growth means that economic growth reduces poverty but increases inequality.
2. It is pro-poor growth if the economic growth reduces poverty but the poor receive proportionally greater benefits. That said growth reduces poverty and inequality also reduces.
3. Immiserizing means growth that increases poverty

Socio-economic disparity: Thailand's experiences

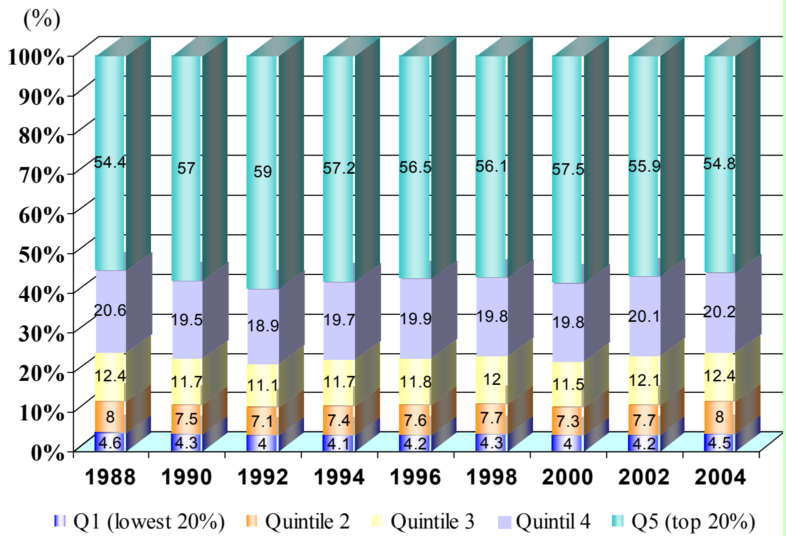
Overall inequality in income distribution in Thailand measured by Gini coefficient



As the economy grew rapidly in the 1980s, income disparity increased in Thailand. For instance Gini coeff. increased from 0.453 in 1981 to 0.479 in 1988, 0.513 in 1990, and 0.531 in 1992. However, after 1992 income inequality began trending down until 1998 before it rose sharply in 1998-1999.

Socio-economic disparity: Thailand's experiences

The latest available data from SES in 2004 indicate that income inequalit y increased sharply between 1998-1999 as the economic crisis had a large r negative impact on the incomes of the poor relative to the better-off.



The income share of the poorest quintile (20%) dropped from 5.4% in 1981 to 3.9% in 1999 while that of the richest quintile increased from 51.5% to 58.3%. However, since 2001 middle 60% have owned rising share of income indicating that income distribution slightly improved which is consistent with Gini coefficient.

13

Poverty elasticity and pro-poor growth index for Thailand

	Poverty ela sticity	Explained by growth	Inequality	Pro-poor in dex
88-90	-1.0	-1.4	0.4	0.7
90-92	-1.0	-1.5	0.5	0.7
92-94	-2.2	-1.7	-0.4	1.3
94-96	-2.1	-2.1	-0.1	1.0
96-98	-2.0	-2.3	0.3	1.1
98-00	-12.1	-2.0	-10.1	0.2
00-02	-3.2	-2.2	-1.1	1.5
02-04	-4.2	-2.5	-1.7	1.7

After the crisis the pro-poor index is greater than one, suggesting that the economic growth has become more pro-poor; meaning that growth enables The poor to significantly benefit from economic activity.

14

Major factors of disparity in Thailand

- ❑ rural/urban residence
- ❑ age and sex of household head
- ❑ education of household head
- ❑ occupation of household head
- ❑ etc.

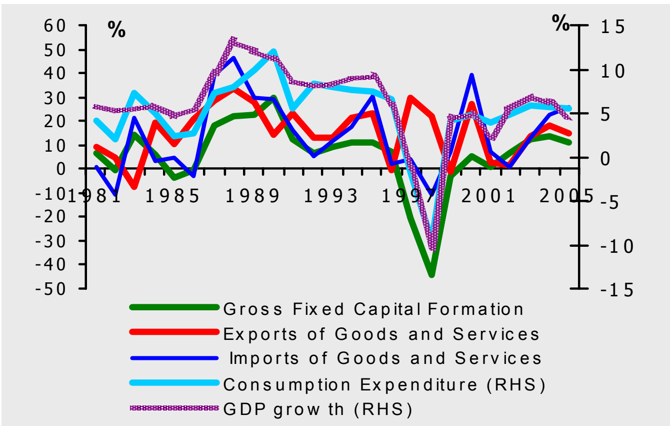
15

Determinants of income distribution

Regression model to explain income inequality of the households in Thailand (Gini index is the dependent variable: Di)	Standardized Coefficients Beta	t	Sig.
(Constant)		**17.47**	**0**
Dummy for main farm income	**0.05**	**10.88**	**0**
Dummy for primary education or less	**0.25**	**51.53**	**0**
Dummy for university education	**-0.02**	**-5.69**	**0**
Dummy for professional and technical work	**-0.18**	**-41.13**	**0**
Dummy for laborer	**0.12**	**30.17**	**0**
Dummy for Bangkok	**-0.07**	**-10.55**	**0**
Dummy for Central	**0.09**	**11.08**	**0**
Dummy for North	**0.23**	**28.21**	**0**
Dummy for Northeast	**0.35**	**37.41**	**0**
Dummy for South	**0.13**	**18.23**	**0**
Dummy for male head	**0.01**	**2.53**	**0.01**
Water supply for general use	**-0.1**	**-23.49**	**0**
NO. OF MEMBERS Accessed to the internet	**-0.12**	**-26.05**	**0**
Dummy for age of head> 60	**0.03**	**7.57**	**0**

The value of Di increase means the ith household has become relatively worse off 15

Economic growth by demand components: what're main contributors to growth



- ❑ Exports has been key driver of growth
- ❑ In Thailand investment and Consumption link closely to international trade activities
- ❑ Exports of goods and service accounts for 60%-65% of GDP
- ❑ The economy is heavily Depends on international trade

	Avg. Plan				Year			
	Plan 4th 1982–86	**Plan 5th** 1987–91	**Plan 7th** 1992–96	**Plan 8th** 1997–2001	2002	2003	2004	2005
GDP growth	**7.1**	**5.4**	**8.1**	**-0.1**	**5.3**	**7.0**	**6.2**	**4.5**
Consumption Expenditure	3.9	8.6	7.6	-2.3	4.8	5.8	5.7	5.5
Gross Fixed Capital Formation	3.1	21.0	9.1	-15.7	6.5	12.1	13.8	11.4
Exports of goods and Services	9.6	25.7	14.2	16.0	1.3	13.9	18.2	15.1
Imports of Good And Service	5.7	26.5	14.4	3.4	1.0	13.2	22.6	26.0

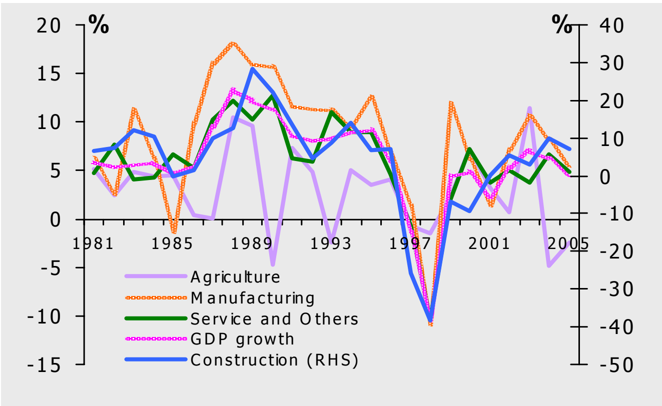
Share to GDP: Demand side

(at 1988 price)	1980	1990	1997	2000	2004	2005
Consumption	**78.2**	**65.9**	**62.6**	**63.2**	**62.9**	**63.5**
- Private	**66.5**	**57.1**	54.4	**54.0**	**54.6**	**54.6**
- Government	**11.7**	**8.8**	8.2	**9.2**	**8.3**	**8.9**
Investment	**29.5**	**39.1**	34.2	**19.9**	**22.3**	**23.8**
- Private	**20.4**	**33.2**	22.7	**12.5**	**16.6**	**17.7**
- Public	**9.1**	**5.9**	11.6	**7.4**	**5.7**	**6.1**
Export & Service	**21.4**	**36.5**	45.7	**64.7**	**66.6**	**66.6**
Import & Service	**29.7**	**41.5**	44.3	**49.8**	**53.9**	**56.4**

Source: NESDB

18

Growth components on production side



GDP growth has been dominated primarily by growth in manufacturing sector, especially, export-oriented manufacturing

	Avg. Plan				Year			
	Plan 4th 1982–86	**Plan 5th** 1987–91	**Plan 7th** 1992–96	**Plan 8th** 1997–2001	2002	2003	2004	2005
GDP growth	**7.1**	**5.4**	**8.1**	**-0.1**	**5.3**	**7.0**	**6.2**	**4.5**
Agriculture	**3.3**	**4.5**	**3.0**	**2.1**	**0.7**	**11.4**	**-4.8**	**-2.4**
Manufacturing	**5.7**	**15.5**	**10.2**	**2.0**	**7.1**	**10.6**	**8.2**	**5.5**
Construction	**6.2**	**17.3**	**8.3**	**-16.0**	**5.4**	**2.9**	**9.9**	**7.0**
Service and Others	**6.0**	**10.1**	**8.1**	**-0.4**	**5.0**	**3.8**	**6.7**	**4.8**

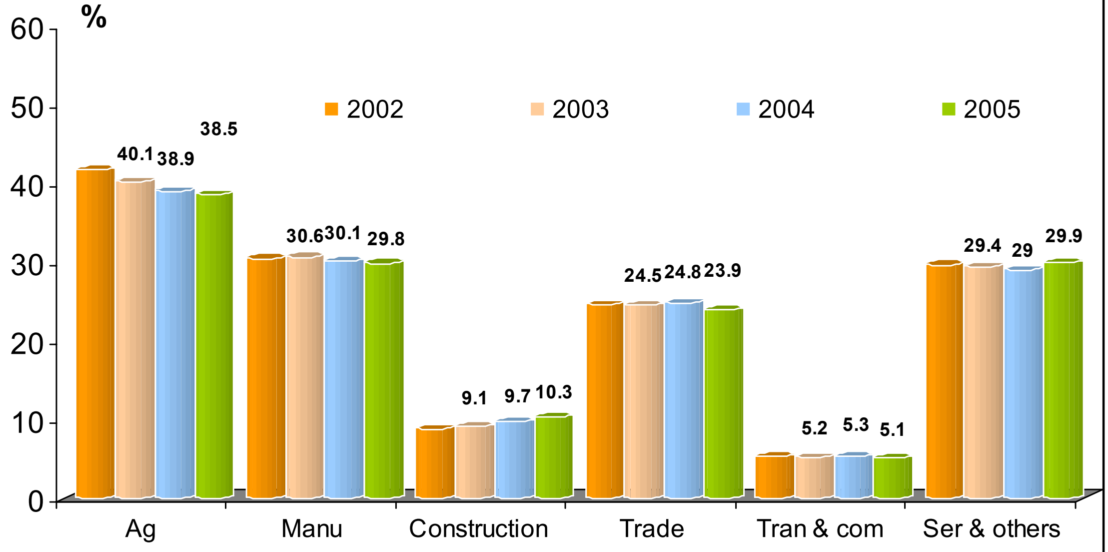
Share to GDP: Supply side

(at 1988 price)	1980	1990	1997	2000	2004	2005
Agriculture	20.2	13.6	9.3	10.3	9.3	8.7
Manufacturing	23.1	27.8	33.7	36.4	38.7	39.1
Construction	4.6	6.0	4.8	2.5	2.5	2.5
Hotel & Restaurants	-	-	3.4	3.8	3.6	3.5
Transportation &Communication	7.2	7.6	9.1	9.7	10.0	10.1
Wholesale & Retail Trade	17.9	17.4	16.6	15.8	14.2	14.0
Banking	3.1	5.6	6.4	2.8	3.4	3.6
Others	23.9	22.0	16.7	18.7	18.3	18.5
Gross Domestic Product, (GDP)	100.0	100.0	100.0	100.0	100.0	100.0

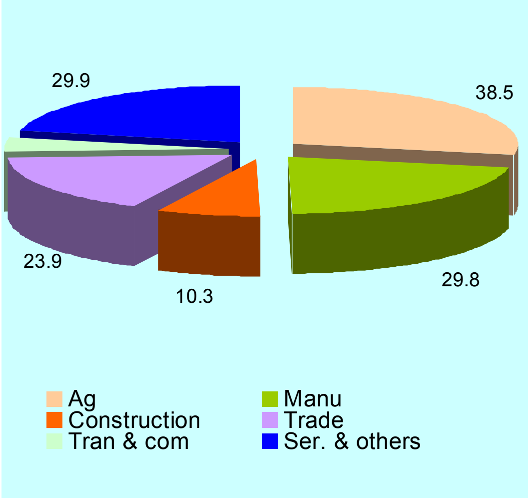
Source: NESDB

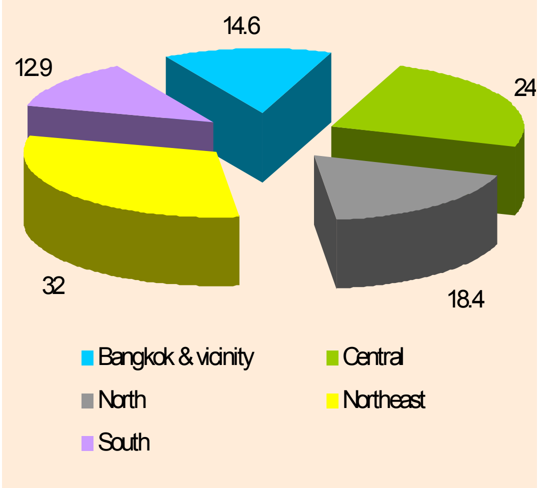
Employment by sectors

Agriculture absorbed the highest share of employment



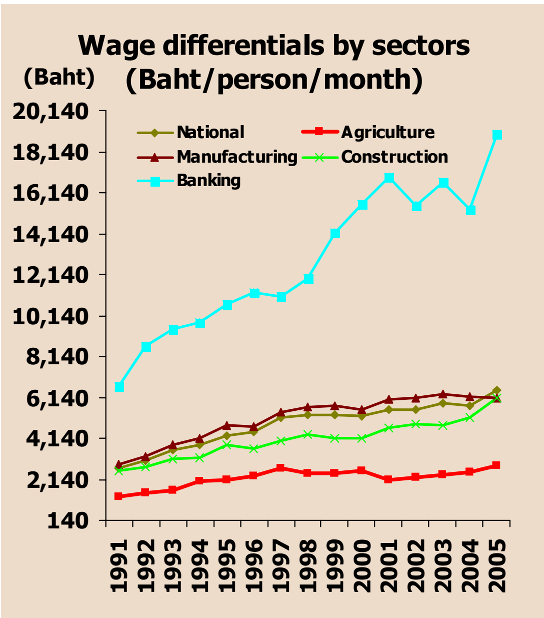
Employment distribution by regions and by sectors in 2005

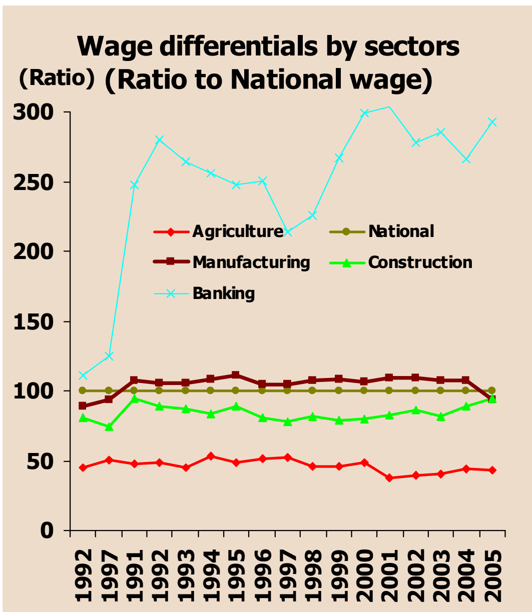




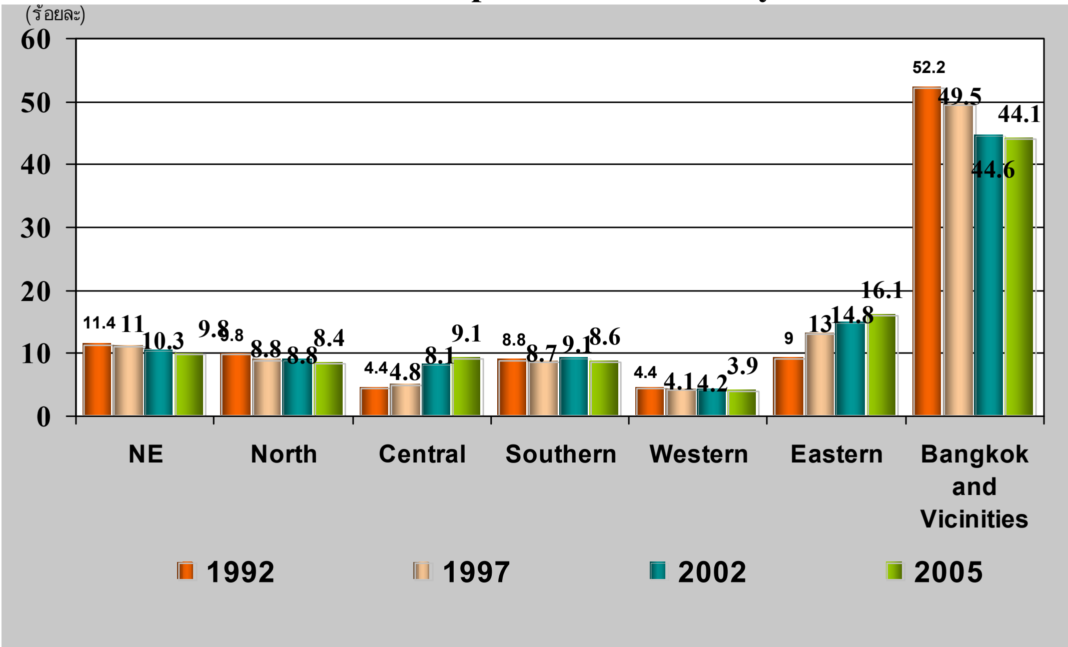
Employment concentrated in agricultural sector and in the Northeast where agriculture accounts for the highest share in its GDP

But wages in agriculture are only half of the national average

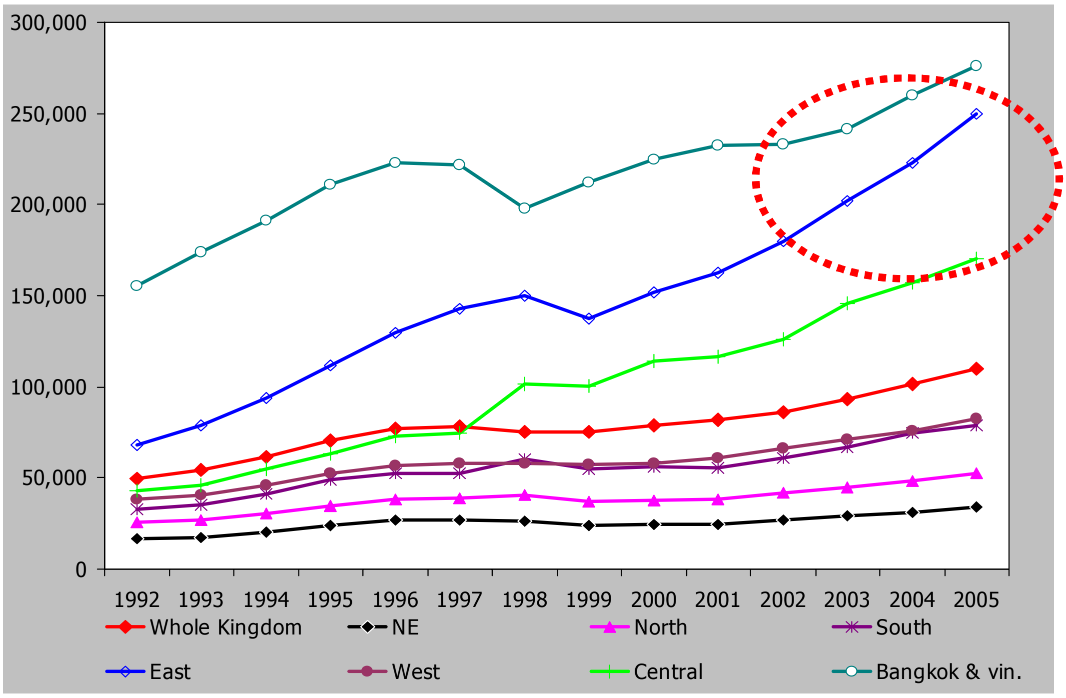




Economic development/activities have been concentrated in Bangkok and vicinities and followed by the eastern part of the country



Income per capita by regions



Theil Index : Inequality of labour unit output value by sector

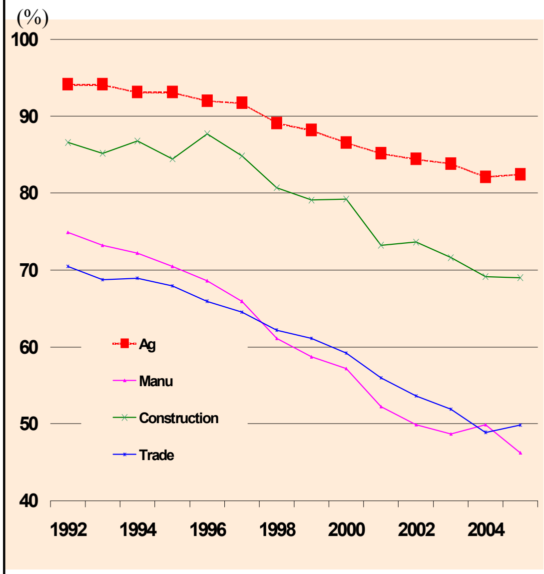
	Plan 8th					Plan 9th			
	1997	1998	1999	2000	2001	2002	2003	2004	2005
Agriculture	-0.0641	-0.0666	-0.0641	-0.0624	-0.0607	-0.0608	-0.0607	-0.0591	-0.0585
Non- Agriculture	0.1963	0.1853	0.1983	0.1945	0.1787	0.1728	0.1574	0.1509	0.1494
-Mining	0.0178	0.0199	0.0180	0.0290	0.0302	0.0276	0.0322	0.0312	0.0388
-Manufacturing	0.0945	0.0954	0.1104	0.1086	0.0927	0.0936	0.0970	0.0944	0.0967
-Construction	-0.0079	-0.0057	-0.3338	-0.0060	-0.0064	-0.0070	-0.0079	-0.0088	-0.0095
-Electricity, Gas and Water Supply	0.0164	0.0208	0.0208	0.0222	0.0252	0.0264	0.0262	0.0269	0.0259
-Transportation	0.0293	0.0293	0.0318	0.0333	0.0350	0.0353	0.0307	0.0283	0.0281
-Trade and Banking	0.0504	0.0351	0.0256	0.0224	0.0290	0.0231	0.0192	0.0170	0.0194
-Service and Others	0.0253	0.0215	0.0264	0.0267	0.0160	0.0170	0.0099	0.0111	0.0066
Theil Index	0.1617	0.1496	0.1650	0.1738	0.1610	0.1552	0.1445	0.1409	0.1474

Source : NESDB

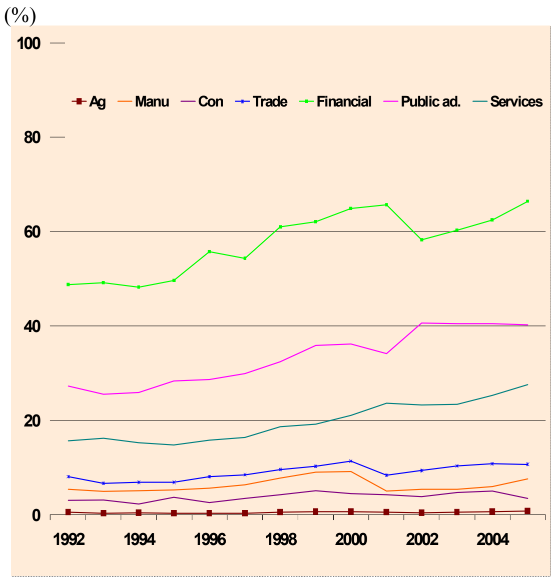
Employment classified by education

In general, proportion of employment with university degree has been on a rise

Primary education or lower



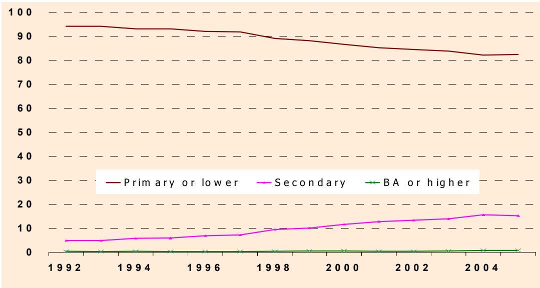
University degree, vocational degree or higher



Employment classified by education in each sector

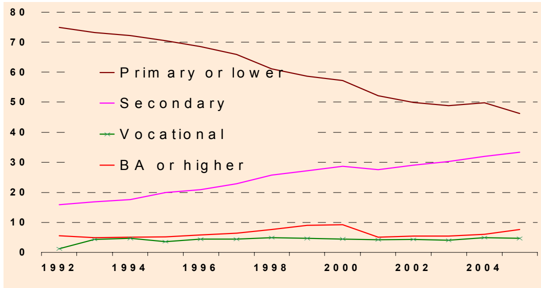
Agriculture

(ร้อยละ)



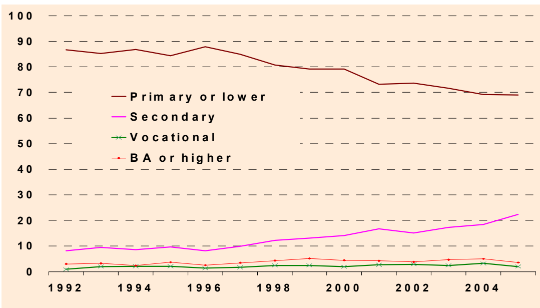
Manufacturing

(ร้อยละ)



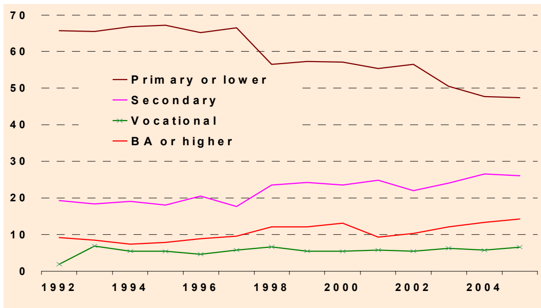
Construction

(ร้อยละ)



Transportation and Communication

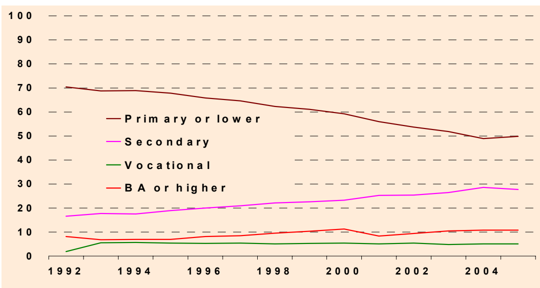
(ร้อยละ)



Employment classified by education in each sector (cont.)

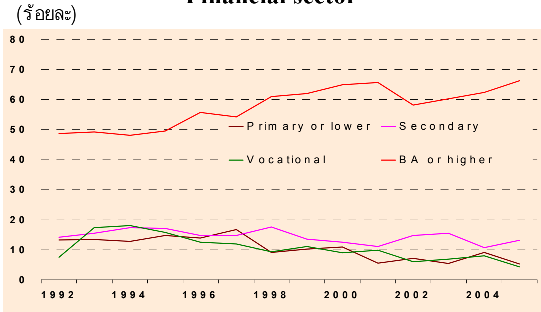
Wholesale and retails

(ร้อยละ)



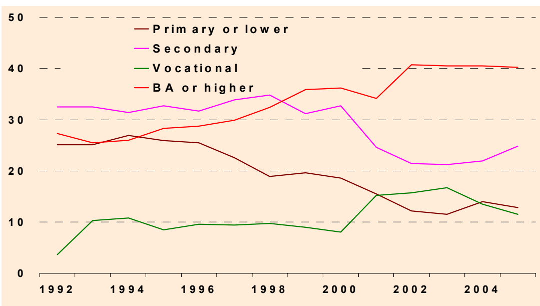
Financial sector

(ร้อยละ)



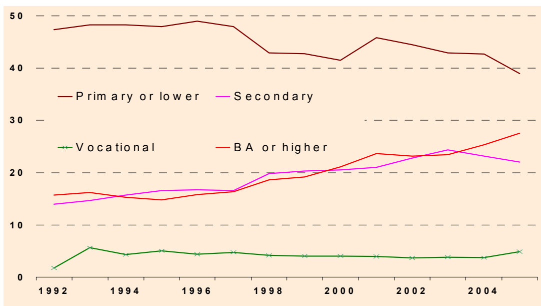
Public administration

(ร้อยละ)



Services

(ร้อยละ)



Some conclusions on factors explaining disparities

❑The overwhelming share of income inequality in Thailand arises due to income variations across individuals residing within the same region---not differences in mean income across regions.

❑ We have seen sectoral-disparities and regional; be they wages, size of production, and size of employment. These disparities show inconsistent pattern and thus in part explain income disparity in Thailand which could deteriorate despite economic growth. But these regional differences explain only 15% of income inequality.

❑ Particularly as the external trade sector expand, public policy for redistribution including labour welfare must be carefully designed and implemented

❑ Education are key factors to improve distribution

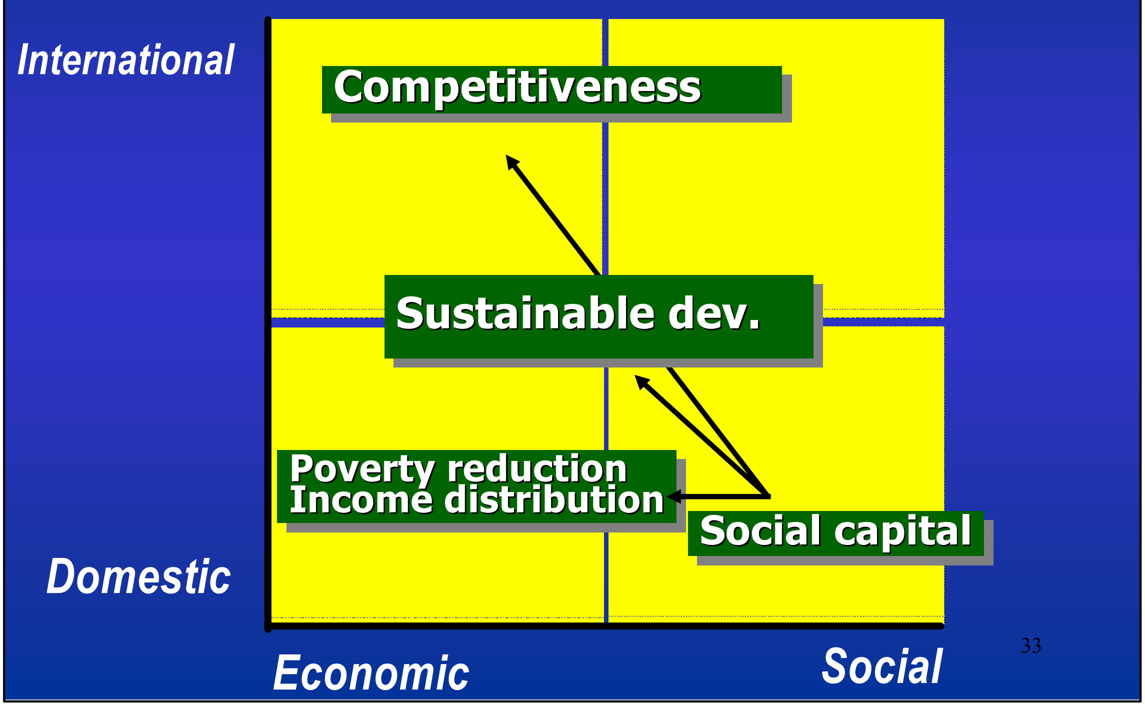
❑ The study by the World Bank (2001) shows that The differences income across households in the NE are likely to be explained by three factors: land ownership, education, and labour remittances.

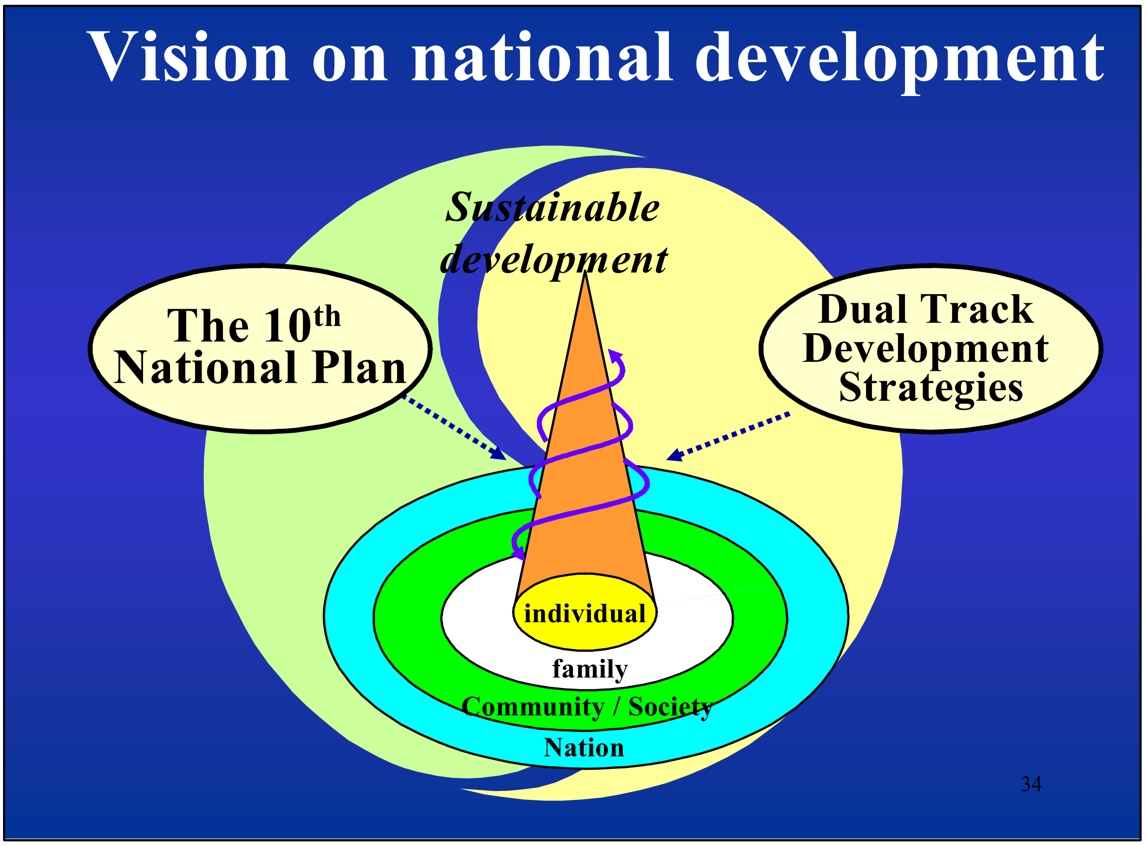
❑ In Bangkok, education and occupation are likely to be the main determinants of income variations across individuals and households.

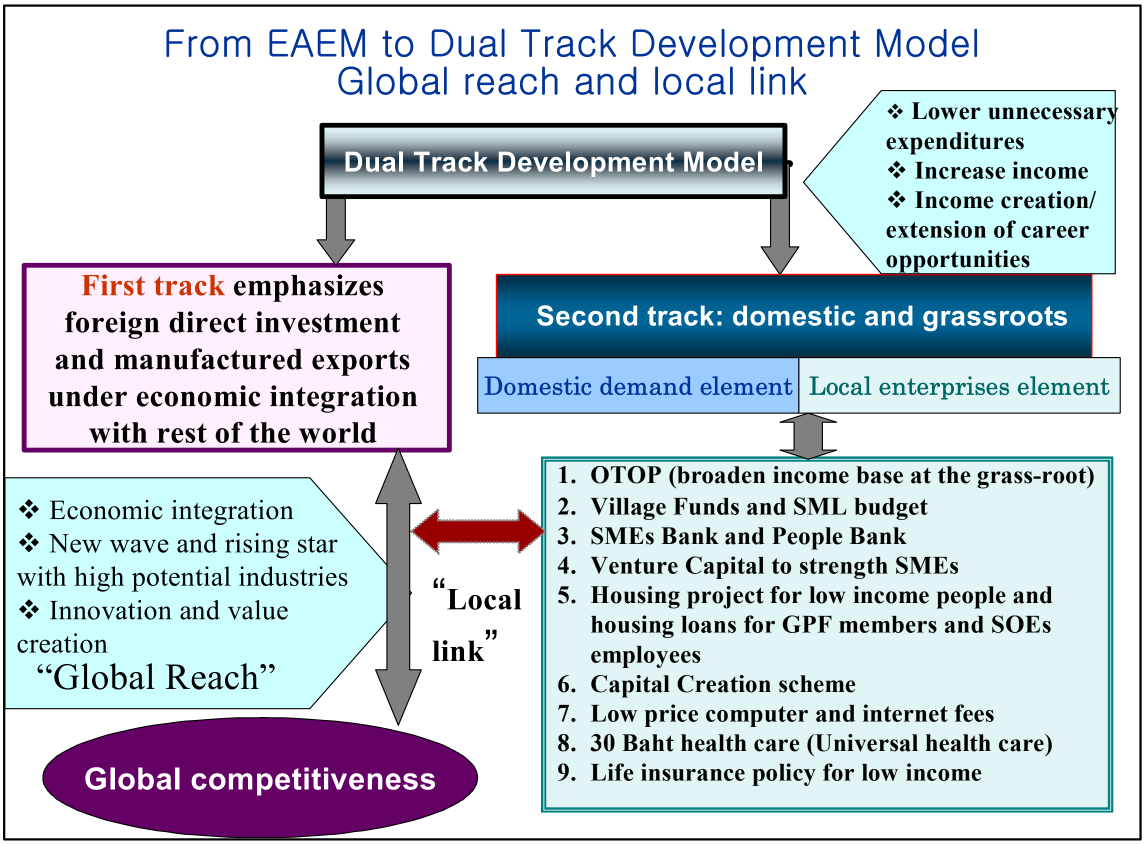
❑ From various existing studies, we may conclude that these five factors shape the pattern of income distribution of Thailand today: They are (1) the concentration of large land ownership among few land owners; (2) imperfect labour markets that generate unequal returns to labour and employment; (3)the large proportion of the Thai people who do not have secondary education, therefore unable to benefit from jobs requiring greater skills and knowledge; (4) political economic system of the country that protects the interest of small but rich and powerful minority compared to large but poor majority of the people; and (5) the fiscal system of the country that does not help reduce income disparities among people. (CDP-PAM, NESDB, Medhi Krongkaew, 2005)

Policy experiences

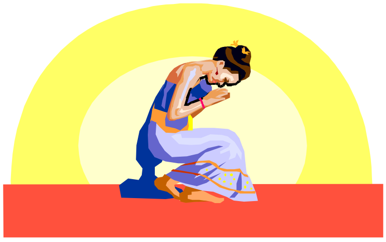
National Agenda




Vision on national development
Sustainable development
The 10th National Plan
Dual Track Development Strategies
individual
family
Community / Society
Nation
34


From EAEM to Dual Track Development Model
Global reach and local link
Dual Track Development Model
❖ Lower unnecessary expenditures
❖ Increase income
❖ Income creation/ extension of career opportunities
First track emphasizes foreign direct investment and manufactured exports under economic integration with rest of the world
Second track: domestic and grassroots
Domestic demand element
Local enterprises element
❖ Economic integration
❖ New wave and rising star with high potential industries
❖ Innovation and value creation
"Global Reach"
"Local link"
1. OTOP (broaden income base at the grass-root)
2. Village Funds and SML budget
3. SMEs Bank and People Bank
4. Venture Capital to strength SMEs
5. Housing project for low income people and housing loans for GPF members and SOEs employees
6. Capital Creation scheme
7. Low price computer and internet fees
8. 30 Baht health care (Universal health care)
9. Life insurance policy for low income
Global competitiveness

Think Economic and Social Strategy, Think NESDB....



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Session 3: Sharing Policy Experience towards an APEC Community

Presentations

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Tb.A. Choesni, Director, State Ministry for National Development Planning, Indonesia

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What Future for Europe's Economic and Social Model?

Fraser Cameron
Senior Advisor
European Policy Centre

Abstract

The EU faces a major challenge in meeting the ambitious goals that it set itself in the Lisbon Agenda - designed to make the EU the most competitive economy in the world by 2010. The failure of the three major continental countries (France, Germany and Italy) to implement much-needed reforms threatens the economic and social cohesion of the eurozone and of the EU. The successful reform states included Britain, Ireland, Sweden and Finland. Demography is also working against Europe. At present each retired person in the EU is supported by four people in work. By 2050 that will be one to two with serious consequences for inter-generational conflict. In an increasingly globalised world, if Europe does not reform it faces a bleak future.

Introduction

Europe's economic and social model is under increasing scrutiny as the pace of globalisation intensifies and there is much concern as to whether the model can continue without radical change. It is perhaps more appropriate to speak of models as there are different economic and social systems - the Anglo-Saxon, Rhineland, Nordic, Mediterranean - in Europe (see table one). These models vary in terms of the degree of state intervention, labour and tax policies, and social welfare benefits. Most attention is given to the apparent split between the UK, which has enjoyed good growth rates for the past decade, and the Eurozone (especially France, Germany and Italy), which has performed poorly in the same period. But to the outside world the European system seems rather uniform, characterized by high taxes, rigid labour markets and expensive social and health care. There is growing concern that the EU is losing ground to other global centers of economic power and that the traditional cradle to grave welfare system is no longer affordable. Growth projections and the looming demographic crisis do not offer an optimistic outlook for Europe. For some time, Europe's political leaders have recognized the scale of the impending crisis but failed to take the necessary tough decisions. A related problem is the need to change attitudes, something very difficult to achieve without strong leadership.

But strong leadership is exactly what is missing in the continent's three largest countries – France, Germany and Italy. These three countries contribute just over two-thirds of the gross domestic product of the eurozone and just under half that of the 25-member European Union. They were the three dominant members of the original EU of six and its most influential promoters over the subsequent half-century. All three now face the prospect of weak government: France possesses a discredited president who failed to secure a 'yes' vote in the referendum on the future of the EU last year. Germany has a relatively effective new chancellor in Angela Merkel but she presides over an internally divided grand coalition. Italy has a weak new governing coalition whose members have never indicated an ability to recognise, let alone resolve, its economic difficulties. The cyclical recovery now under way presents the perfect opportunity for reforms but it is far from certain that the opportunity will be taken. This failure could have serious consequences for the long-term future not just of these countries, but also for the eurozone and the EU.

The Lisbon Agenda

In March 2000, European leaders committed the EU to become by 2010 'the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment.'[1] The Lisbon Agenda, as it was named, was a comprehensive and interdependent series of reforms. Actions by any one Member State, ran the argument, would be all the more effective if other Member States acted in concert. At the March 2006 European Council, however, it was clear that the EU was unlikely to meet this ambitious target. There was less talk of the Lisbon Agenda and more talk of preventing 'economic nationalism,' code for protectionism in Europe[2].

Certainly external events since 2000 have not helped achieving the Lisbon objectives but the real blame lies with the leaders of the Member States who have failed to act with sufficient urgency. This disappointing delivery is due to a reluctance to tackle domestic lobbies, an overloaded agenda, poor coordination and conflicting priorities. Better

1) Presidency Conclusions, Lisbon European Council, March 2000.
2) Presidency Conclusions, Brussels European Council, March 2006.

implementation is needed now to make up for lost time as each element of the Lisbon strategy is still needed for the success of the whole. Improved economic growth, higher productivity and increased employment provide the means to sustain social cohesion and environmental sustainability. Failure to achieve these goals could threaten the very edifice of the EU. No single action will deliver higher growth and jobs. Rather, there are a series of interconnected initiatives and structural changes that requires urgent action. These include:

- *the knowledge society*: increasing Europe's attractiveness for researchers and scientists, making R & D a top priority and promoting the use of information and communication technologies;
- *the internal market*: completion of the internal market for the free movement of goods and capital, and urgent action to create a single market for services;
- *the business climate*: reducing the total administrative burden; improving the quality of legislation; facilitating the rapid start-up of new enterprises; and creating an environment more supportive to businesses;
- *the labour market*: more flexibility, combined with strategies for lifelong leaning;
- *environmental sustainability*: pursuing policies which lead to long-term and sustained improvements in productivity through eco-efficiency.

Not all is gloom. The EU is a global leader in many areas, but has not been successful in conveying this message to the rest of the world. All too frequently it is seen - even by Europeans - as a historical and cultural paradise rather than a truly innovative venture. But it is a fact that some members of the EU such as Sweden and Finland are persistently the best performing countries in the world, whether it is with regard to competitiveness, innovation or human development. Europe is already a global leader in different fields - telecommunications, environment, optics, tourism, etc. - and is a major player in establishing world standards in trade and financial services. Furthermore, Europe is a leader in sustainable development, demonstrating the link between economic growth, the environment and welfare. There have also been some successes in meeting the Lisbon goals. These include the adoption of a substantial body of internal market legislation, the creation of more than six million jobs since 1999; the full or partial completion of certain networks (gas, rail freight, telecommunications); and concrete progress towards a knowledge-based society, with a significant increase in broadband and mobile users as well as e-Government services. A 2005 study analysing business conditions around the world singles out the EU as the busiest reformer. It includes indicators such as simplicity of starting a company, enforcing contracts, obtaining finance, protecting investors, etc. Although there is still a long way to go, it conveys a real change of mood in the EU.[3]

Implementing Lisbon

"The European Council agrees that the critical issue now is the need for better implementation of commitments already made. The credibility of the process requires stepping up the pace of reform at Member State level. Enhanced monitoring of national performance is needed, including information exchange on best practice. There must be speedier translation of agreements and policy making at EU level into concrete measures. The European Council underlines the need to address the unacceptably high deficits in transposing agreed measures into national law, and to complete the legislative programme arising from the Lisbon Agenda." [4]

While all Member States agree with the goals of the Lisbon strategy they have a poor record at implementation. Most of the reforms required to boost EU growth are the exclusive competence of the Member States rather than the EU institutions. The different levels of government within the Member States also have a vital role to play. For example, it is important to involve regions and local authorities and other stakeholders, such as civil society and business as they are frequently the motors of best practice and the source of positive peer-pressure within and across borders.

Completing the Single Market

Since the internal borders were removed more than ten years ago, the internal market has proved to be a driving force for the European economy. It has increased economic growth by approximately 1.8 per cent, and has fostered the creation of 2.5 million new jobs, but it is still not a full-fledged reality. The internal market needs to be completed with emphasis on the services directive, the community patent, the directive on recognition of professional qualifications, the financial services action plan and the trans-European transport network.

The role of the public sector

Contrary to widespread beliefs, maintaining social protection and achieving high levels of competitiveness are not contradictory aims. The most competitive economies in Europe

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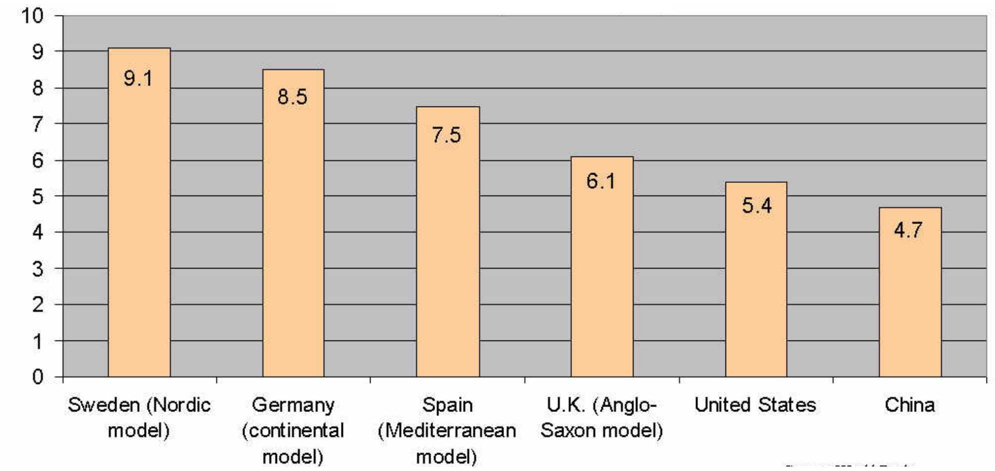
3) Doing Business in 2005: Removing Obstacles to Growth, the World Bank and International Finance Corporation
4) Presidency Conclusions, Brussels European Council, March 2004

(Sweden, Finland) enjoy highly developed social security models with large public sectors. In these countries, the public sector has been able to reinvent itself, changing from a slow-moving bureaucracy to an active driver and a reliable partner towards growth and innovation. Most importantly, fiscal and regulatory burdens on employment (non-wage labour costs, rules for dismissal, etc) are light, while social security provision for those genuinely unable to find work remain generous (see table).

Different social models, different levels of poverty
Income share held by lowest 20%(2001)



Source: World Bank

One of the biggest challenges in reforming the social model is to adapt it to the aspirations of a changing society and bring it closer to the citizens. The public sector accounts for approximately half of the Member States' economies and, subject to necessary reforms, could be a decisive tool for achieving high levels of competitiveness and a major factor for advancing sustainability.

Better Regulation

Regulation at EU level seeks to strike a balance between minimal economic disturbance and market efficiency on the one hand, and social, environmental and consumer protection concerns on the other hand. Therefore EU regulatory activities are not in themselves obstacles to the attainment of the Lisbon objectives. On the contrary, they are driven by the aspiration to create a competitive and sustainable Europe. However, regulation can stifle economic development and deter investment because of compliance costs, administrative burdens and cumulative effects. This can be a large barrier for entrepreneurs and small and medium-sized enterprises (SMEs) at the heart of innovation. In this regard, the EU needs to develop a coherent risk communication policy that would apply to all phases of the regulatory process.

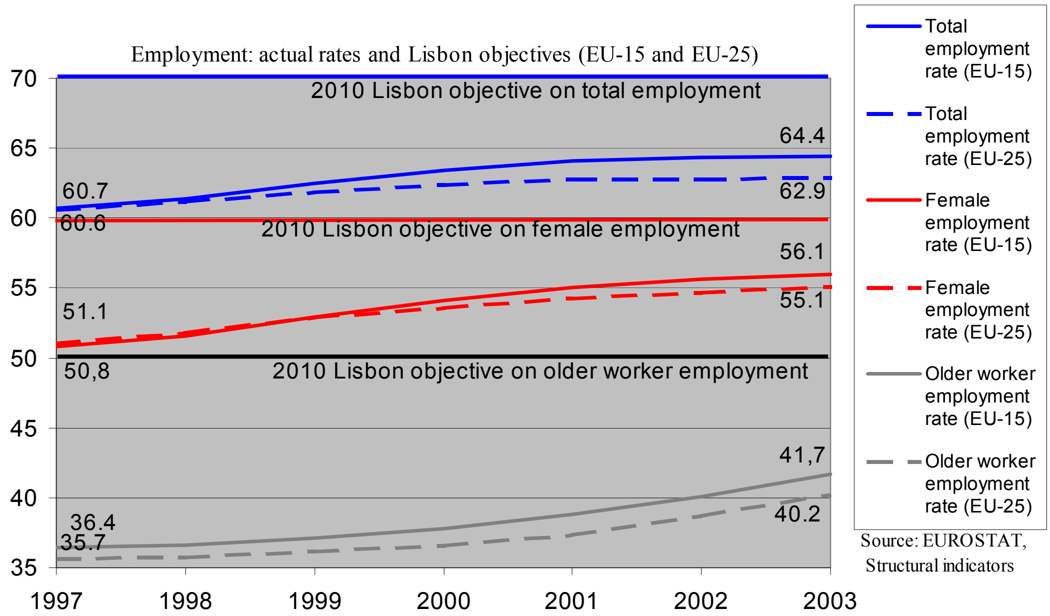
Education and training

Human capital plays a key role in any modern economy and hence the growing concern at the brain drain of leading European scientists and researchers to the US. There needs to be increased public and private investment in education and training. Developing partnerships between universities and companies could be rewarded through fiscal incentives thus promoting commercialisation of R&D results. Raising public awareness of the importance of education and training and better access to lifelong learning is indispensable in order to achieve high employment rates and higher labour productivity. Both public and private expenditure in the EU remains far below the commitments to provide three per cent of GDP to R&D by 2010. One of the basic differences between the US and EU economies is the level of investment in R&D and the consequent effects this has on productivity growth and real economic growth. This results in better growth performance by the US and better Intellectual Property Rights (IPR).

Employment Protection

Attaining the 2010 target of a 70 per cent overall employment rate is becoming increasingly unlikely with unemployment the scourge of European society for the last thirty years. In most Member States, high levels of protection for those in work has been achieved at the cost of excluding large numbers of people from the labour market. Job protection varies widely throughout Europe. In France, Germany and Italy, it is extremely difficult to dismiss anyone with a permanent contract. Workers also enjoy generous vacations, pensions and maternity leave, subsidized meals and transport. High youth unemployment prompted efforts to introduce a new law in France that would make it easier to dismiss young but this was dropped after mass protests and strikes (see below). In the UK, workers enjoy less protection and most benefits are decided by the employer, not the state. In the new Member States practices differ. Labour laws in Lithuania, Latvia and Estonia favour employers, who have few restrictions in hiring and firing. Poland, in contrast, has rigid labour laws that make firing very difficult. In much of Europe, the idea that a company can dismiss workers just because profits are sagging is unacceptable, an affront to long-cherished values. Yet economists say that reforms to Europe's labour laws are crucial to the continent's economic health.

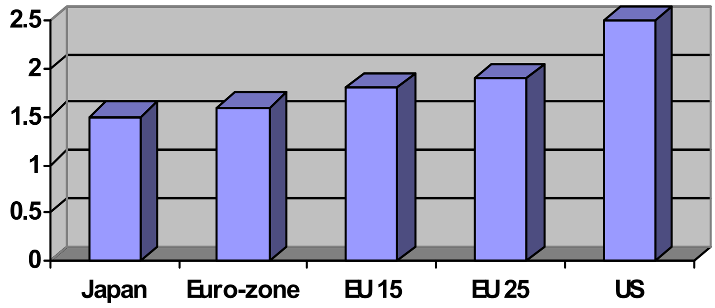
Much remains to be done...



Source: EUROSTAT, Structural indicators

There is a long list of measures that need urgent implementation to affect change and improve the functioning of labour markets within the EU. These include providing better fiscal incentives; creating an employment friendly tax environment; a job creation agenda based on productivity growth; reinforcing the link between entrepreneurship and job creation; promoting new forms of work organization; fostering life long learning. The challenge, then, of boosting the growth rates of the European Union is part and parcel of the challenge of creating the necessary balance between economic prosperity, social justice, the development of intellectual capital and respect for our shared environment. Without higher growth rates in the European Union, none of these aspirations will be realised. Much, therefore, is at stake. Yet the successes of the European economy cannot disguise persistent shortcomings. The total employment rate in the EU still lags almost ten per cent below the proportion of the US labour market engaged in work. The EU would have to employ almost 17 million more people to close this gap. Productivity in the EU has stagnated in recent years, now at almost twenty per cent lower per employed person than in the US.[5] These are the main reasons why, today, GDP per capita is more than thirty per cent higher in the US than in the EU[6]. Add to this the low fertility rates in the EU, and the impending explosion in the retired population in Europe, and the reasons why urgent action is required to boost EU economic growth becomes self evident.

Average real GDP growth rate 2000-2005(%)



Source: Structural Indicators, EUROSTAT

The success of economic reform can only be achieved with a greater effort at communicating the main points to the stakeholders. This has been done successfully in some countries (Sweden, Finland) and not at all in other countries (France, Italy). It is hard to understand why the Lisbon strategy, targeting all the very basic interests of European citizens - from employment to health - should remain so unknown to EU citizens. There is, however, little sign of clear and strong leadership at the EU level. There is also no real public debate to exert bottom-up pressure to achieve the Lisbon goals. National parliaments need to be brought into the picture and there needs to be greater involvement of the social partners and civil society groups. More attention needs to be paid to sustainable development, a concept that citizens find appealing when explained in clear terms.

The current debate

The debate over Europe's economic and social model shows no sign of being resolved. At the March 2006 European Council, EU leaders agreed another set of modest conclusions that gave little encouragement to those hoping the EU might still meet its ambitious goals enshrined in the Lisbon Agenda. Meeting just before the summit, Europe's business leaders told their political counterparts to hasten economic reforms or face obsolescence. The unanimous message from business was that competition from Asia would only increase

5) EU15, Source: Structural Indicators, European Commi
6) EU15, Source: Structural Indicators, European Commi

and that Europe had to adapt quickly or face decline. Ernest-Antoine Sellière, president of the business federation Unice, hit out at the paralysis afflicting the 25-member EU, saying that decision-making in Europe was "coming to a kind of standstill . . . governance has to be improved." He condemned the recent outbreak of protectionist rhetoric in Europe, saying the EU "must take action against member states who infringe the internal market."[7].

Politicians in several countries have been playing with protectionism to gain favour with domestic audiences. French Prime Minister, Dominique de Villepin, has defended a policy of "economic patriotism" stating that France wants to protect eleven "strategic" sectors, including gambling, from foreign takeovers. France has been accused by Italy of trying to thwart Enel's takeover of Suez, the Franco-Belgian utility, by pushing Gaz de France into a merger with Suez instead. Germany has been a traditional supporter of free trade, backing the European Commission's fight to keep borders open. But Berlin has clashed with Brussels over its "Volkswagen Law", which protects the carmaker from hostile bids. Italy claims its companies are the victims of protectionism by France and Poland. However, Rome has led calls for EU tariffs on Chinese imports and has blocked foreign banking takeovers. Even tiny Luxembourg has led opposition to the bid by Mittal for Arcelor, the steel company based in the grand duchy. Prime Minister, Jean-Claude Juncker, promised a "hostile reaction" to the Indian takeover bid. In Spain, the Socialist government is opening its borders to eastern European workers and wants a more robust law to open Europe's services market. But prime minister José Luís Rodriguez Zapatero wants to protect utility Endesa from a takeover by Germany's Eon, in the name of "energy security." Poland has tried to block the merger of Polish subsidiaries of Italian bank Unicredit and German bank HVB. But it too finds itself the victim of protectionism: its workers face restrictions in finding jobs in countries such as Germany and its services providers are angry over the dilution of a draft EU law to allow more cross-border trade.

The Member States have thus been engaged in an unseemly exchange of insults accusing each other of protectionist tendencies. This is not some dispute about a new EU project. Protectionism is at odds with the union's founding principle – the creation of a common market binding the Member States together through economic integration. When France and Spain try to block foreign takeovers of their energy companies or Poland attempts to frustrate an Italian banking bid, they challenge the the "four freedoms" guaranteed by the 1957 Treaty of Rome: the free movement of goods, persons, services and

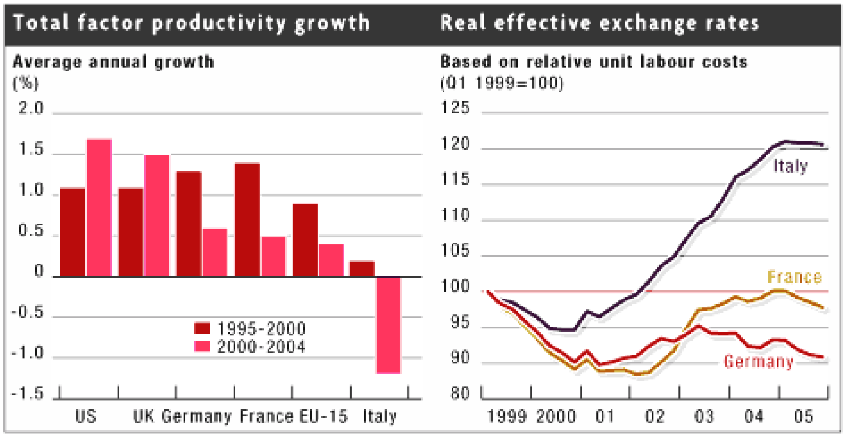
7) Sellière speech to European Council, March 2006 available on www.unice.org. By speaking in English he prompted a walk-out by French President, Jacques Chirac

capital.

How serious is this "new protectionism"? Could it unravel Europe's single market, threatening almost 50 years of integration and hobbling the continent's economy? Or is this a temporary phenomenon that can be contained, allowing the EU to continue onwards, even reviving its half-dead constitution? Although protectionism has always been present in the EU, what makes today's developments striking is the way some governments – particularly those of France and Poland – present it as a positive policy choice, expressed in strident terms that fail even to acknowledge European treaty obligations. Dominique de Villepin, has said: "When the world is changing it is a question of gathering our strengths and defending France and things French." Mr de Villepin has partly blamed France's European malaise on the pace of the enlargement of the union from 15 to 25 members, importing the forces of globalisation by admitting poorer countries such as Poland. France is one of several EU countries that have tried to fight the consequences of the 2004 enlargement by imposing restrictions on the free movement of eastern workers and watering down laws to liberalise the cross-border services market. Perhaps inevitably, this has sparked protectionist language and nationalist rhetoric from the new member states. Lech Kaczynski, the populist Polish president, put it bluntly: "What interests the Poles is the future of Poland and not that of the EU."

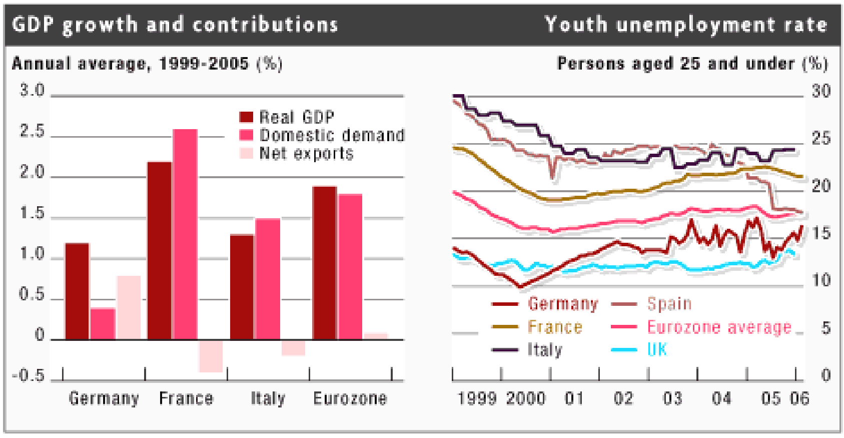
The continental core economies

The major problem countries are France, German and Italy. The special difficulties of France and Germany are analysed later as is the success story of Sweden for comparison. That these three share significant failings is evident. According to a recent report, total factor productivity growth – the growth of output that cannot be explained by that of inputs of labour and capital – has fallen to very low levels in all three (see chart). Equally striking are the weak labour markets: in December of last year, the unemployment rate was 9.5 per cent in Germany, 9.2 per cent in France and 7.7 per cent in Italy, against 4.9 per cent in the UK and US.



Source: OECD, Paris

As important, however, are the differences among them: Italy has suffered a huge loss of competitiveness inside the eurozone, while Germany and, to lesser extent, France have improved it; Germany has had an excellent export performance, while France (despite improved competitiveness) and Italy have shown relatively poor performance; Germany has relatively low unemployment rates for people aged under 25, while France and Italy suffer rates of well over a fifth of those seeking work; Italy's ratio of gross public debt to GDP, at 107 per cent in 2004, according to Eurostat, is far above that of France, on 65 per cent, or Germany, on 66 per cent; and, finally, French domestic demand has been buoyant, while Italy's and Germany's have both been weak. The weaknesses these countries share and the divergences among them underline three salient points: first, they all have to undertake substantial reforms; second, while some of the essential reforms – of product market regulation, for example – are similar, others are specific to each; and, finally, without reforms, the eurozone as a whole will continue to function poorly, with dire political and economic consequences. Reform may be a national responsibility, but it is also an obligation to the other members of the currency club.



Source: OECD, Paris

Perhaps the most depressing failure of political leadership over the past decade has been the refusal to take the implications of entry into the eurozone seriously. For a currency area, any need to adjust unit labour costs relative to those in other areas should largely occur through changes in the external value of the currency. For countries within a currency area, however, changes in competitiveness require adjustment in relative nominal unit labour costs. Thus, Italy's lost competitiveness can be regained only through a "prolonged period of below-euro-area-average growth in unit labour costs."[8] That is going to hurt. Indeed, one must doubt whether this is politically feasible in a divided country now led by Romano Prodi, head of a weak coalition government.

It is not that reforms have been absent; it is rather that they have been grossly inadequate. It is also not that policymaking elites are unaware of the challenges; it is rather that they are unwilling to expound them. In France, remarkably, the population seems to believe that everybody can – and should – be treated just like a civil servant. They seek a miraculous combination of almost absolute job security with rising prosperity. In a rapidly changing world, this is a form of collective cognitive disorder. Administrative centralism tempered by popular upheaval has been the historic characteristic of France. Localism and clientelism have similarly characterised Italy's politics. In Germany, unification has also made the country less governable: without it a grand coalition would presumably have been unnecessary. None of these countries has found it easy to change direction without turmoil. France is even achieving turmoil and no change in direction.

8) *The Euro: Only for the Agile*, February 2006, www.bruegel.org

French Difficulties

The French are in something of a paradox. Financial results show record profits for the countries top forty companies in 2005, up fifty per cent on the previous year. In 2005 French companies were the world's third biggest source of global cross border takeovers. To the surprise of many, France is the biggest single investor in Texas. Within the private sector the rules of globalised capitalism are well accepted. France is less unionised than America and very few days are lost to strikes. Per hours French workers are more productive than their American counterparts, though they lose out on overall productivity because they work a mere 35 hours a week. But compared to this highly efficient private sector there is also a very large public sector employing nearly five million French workers or one quarter of all jobs. More than 65 per cent of French youth say they would prefer a job in the public sector because it offers a job for life. The French government understands this cannot continue and in spring 2006 the government attempted to introduce an amended employment law that would allow employers to hire and fire young workers with relative ease during their first two years in employment. But even this modest change provoked massive demonstrations in France. Over two million people took to the streets on 28 March in the biggest single day of strikes and demonstrations that the country has seen for well over a decade. The government retreated in the face of the strikes and lost a major opportunity for reform.

This protected half of France coexists with the other- the dynamic highly trained private sector France- which is marching brazenly wherever globalisation allows. These are the two halves of today's France which inhabit quite different worlds and which almost uniquely in Europe seem to be drifting farther apart. Who is to blame for this situation? The short answer is the political class that has repeatedly failed to explain to the French what is at stake and why things need to change. For the past twenty years the mainstream political choice has been between a form of socio-Gaullism embodied by Jacques Chirac- who last year described liberalism as a greater threat than communism- and an archaic socialism that fails to understand or at least to explain that wealth needs to be created before if can be shared. The French government's overall tax take is 44.5 per cent of GDP next to a euro zone average of 39.5 per cent.

An opinion poll published by Eurobarometer in March highlights the scale of that challenge.[9]. Although the majority of French voters still hold generally positive views

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9) Eurobarometer March 2006 on how France views the EU.

towards Europe, they express concerns about several of its policies, most notably the European Commission's liberalising initiatives and further enlargement. Moreover, the political compact among the elite that underpinned support for the European project has broken down. For decades, the Socialist party championed the EU as a mechanism for spreading its ideas across the continent – especially when the European Commission was run by Jacques Delors, a French socialist. The Gaullist right also swallowed its concerns about the erosion of national sovereignty in the belief that the EU magnified French influence in the world. But more and more politicians are now trumpeting the importance of the nation state. The left wing of the Socialist party argues that Paris must resist the liberal directives coming out of Brussels. The right wing of the ruling Gaullist UMP party argues for the defence of national industrial interests – a policy dubbed "economic patriotism" – and the halting of all further enlargement that would dilute French influence.

France's pro-European politicians suggest three responses to the challenges. First, they argue that the government must do a far better job of publicising how France benefits from EU membership and explaining how Europe can enhance rather than diminish national sovereignty. The second response has been to defend French national interests within the EU more publicly and assertively, which has led to clashes with other member states. France has been vigorous in defence of the common agricultural policy and in opposition to greater EU concessions in the Doha round. It has also sought to dilute the controversial EU services directive and defend its industrial champions from foreign takeovers. The third response is simply to wait until 2007, when the next presidential elections are held. In this analysis only a president with a fresh mandate can bring renewed vision to France's European policy.

The German problem

Germany has equally struggled to reform its creaking economic and social system. Its famous social-market economy has become unsustainable, primarily as a result of the huge costs of unification in the 1990s. The previous government, led by Gerhard Schroeder, attempted to introduce reforms by stealth, cutting away at the generous social benefits Germans had enjoyed for decades. The Hartz IV reforms dramatically reduced welfare entitlement.[10]. Unemployed single people, for example, now receive no more than €345

http://www.esds.ac.uk/International/access/eurobarometer.asphttp://www.esds.ac.uk/International/access/eurobarometer.asp

10) http://www.german-embassy.org.uk/agenda_2010

($409) a month. But neither the Schroeder government nor the current grand coalition has been able to tackle the twin problems of low economic growth and high unemployment. This is largely due to the dominant position of those in employment. The term social market economy is now rather a misnomer. What it describes is neither social nor a market economy but a system that protects insiders from outsiders through various institutional mechanisms such as wage bargaining cartels, state-owned banks, cross-shareholdings and co-determination within corporate supervisory boards. Welfare reforms aggravated the insider-outsider problem inherent in the social market economy by making protection more valuable to those who enjoy it. In a country with a deregulated goods and labour market, a well-designed welfare reform programme would have a positive effect on employment and entrepreneurship, encouraging the long-term unemployed to take up employment or take risks. In the social market economy, draconian welfare reforms that are not accompanied by market liberalisation have the opposite effect. They merely encourage insiders to defend their spheres of interest even more doggedly. This explains in part why, since enlargement, German political parties on the left and right have insisted on keeping their labour markets closed to new EU members for the full seven-year transition period. This is also why German trade unions have become increasingly hostile to the idea of a liberalised European services market.

Welfare and pension reform, in particular, has had an undesirable macroeconomic effect. Over the past few years, falling incomes have improved Germany's relative competitiveness within the eurozone. One would have expected trade unions to have prevented a deflationary wage spiral – which would have been a good side-effect of the social market economy – but instead they colluded with employers' associations to keep wages down in exchange for some job guarantees. Under these circumstances one can expect real wage deflation to continue for many years to come, even as the economy recovers. The fall in pensions is even more dramatic than the fall in wages. Ten years ago, the German government projected that average pensions would reach €1,510 in 2006. Today's average pension is €1,184, about 22 per cent lower than forecast. What we are witnessing is a deflationary spiral in full swing, with both wages and pensions in real decline. The German government has therefore solved the pension problem by turning it into a deflation problem. But what this demonstrates is that if you reform the welfare state during a period of falling real wages while allowing insiders to pursue their interests at the expense of outsiders, you are not solving any problems. It should come as no surprise that protectionism can thrive in such a macroeconomic environment.

Sweden

Sweden is a European success story. It has one of the world's most comprehensive tax-based welfare systems, yet enjoys high employment and high productivity. Among the more startling OECD statistics is that the average Swede takes 17 weeks off work each year – mostly through a combination of holidays, sickness and parental leave. Yet Sweden's macroeconomic performance is impressive. Between 1995 and 2004, labour productivity grew by an average annual rate of 2.5 per cent – higher than even the US. Since 2004, annual inflation rates have fallen and remained below one per cent – the lower band of the central bank's target range. The Swedish government runs a structural surplus of more than one per cent of GDP. No economy is perfect. But in terms of macroeconomic performance, Sweden comes close.

So how could Sweden have succeeded when its policies appear so flawed? The decision to stay out of the euro is not a convincing answer: the krona's exchange rate against the euro has been remarkably stable, except for a short period in 2000. Nominal interest rates were on average a little lower than in the eurozone but not low enough to explain the difference in performance. It is not clear, either, that the success can be attributed to Sweden's social model. It is true that the country manages to combine a high degree of social security with flexibility. Flexibility, in this instance, does not mean a regime in which it is easy to hire and fire workers but one characterised by welfare-to-work programmes, ambitious retraining schemes, specific programmes to integrate the disabled into the labour market and a world-class education system. Sweden produces one of the largest proportions of high school graduates in the world and is a champion of life-long learning. In Sweden, it is not the system that is flexible. It is the people.

But while these supply-side policies bring many long-term benefits, the Swedish model cannot explain the country's macroeconomic success during the last 10 years. A more plausible explanation is Sweden's general approach to economic reform. By embedding economic reforms in a transparent economic strategy, Sweden managed to avoid the uncertainty emitted as a toxic byproduct of reform elsewhere. In contrast to many other European governments, the Swedes are clear about their policy goals and the instruments they will use to achieve them. They seek high levels of employment and social security, a low dispersion of wages, superior public services and a generous welfare state. In return, they accept higher taxes, tight labour market regulations, a fiscal surplus and a conservative monetary policy.

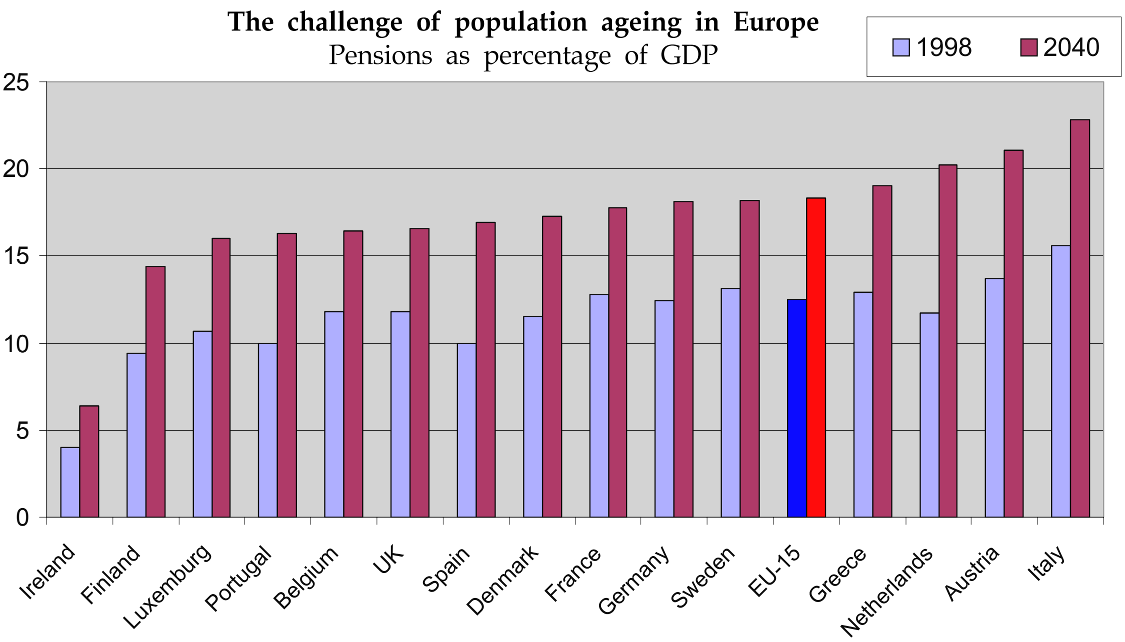
To make this work in practice, consecutive governments implemented tough reforms to welfare systems, pensions, the budget and the labour market. They also deregulated product markets to bring down inflation. Like it or not, it is a consistent strategy. Compare this with the confused national economic thinking in Germany and France. The Germans prefer US-style income and corporate taxes and a Swedish-style public sector. The national economic strategy, if one can call it that, is full of such contradictions. In France, labour market reforms consist of a series of one-off political stunts. Sweden also benefits from a more consensual political culture. The theological divide between anti-reform fundamentalists and true believers in US-style market freedoms is far less pronounced. Swedes do not agree on everything, but their debate on economic reforms is more measured. Anti-reform riots on the streets of Stockholm are unthinkable because policymakers know they must prepare the ground carefully and build effective coalitions. The reason for Sweden's economic success, therefore, is not a superior social model or a clever macroeconomic strategy. It is not the policies the country has adopted – but how it has adopted them.

The demographic challenge

The EU faces an additional pressing problem, which does not occur in other parts of the world: European countries have low birth rates, ageing populations and still harbours distrust towards immigrants. Projections show that by 2050 there will be one pensioner to every working person, reducing growth to less than one per cent, with severe cuts in GDP per capita and general welfare. Migration is a defining characteristic of today's world and represents a moral challenge for Europe. Yet, it can also be a useful tool in combating the problems that arise from demographic change. It could help reduce labour shortages in key sectors, such as transport or health care, as well as low-skilled occupations. It could also spread the effects of the economic transition over a longer timescale, thus limiting the immediate impact of demographic change.

Europe's population will be slightly smaller, but significantly older in 2050. While the total population of the EU25 will register a small fall from 457 to 454 million, starting already in 2010, the working-age population (15 to 64) is projected to fall by 48 million (or 16 per cent) by 2050 whereas the elderly population aged 65+ will rise sharply, by 58 million (or 77 per cent). Potential growth rates are projected to fall across the EU. The annual average potential GDP growth rate in the EU25 as a whole is projected to decline from 2.4 per cent in the period 2004-10 to 1.9 per cent in the period 2011-30, and to only 1.2 per cent between 2031 and 2050. Ageing will lead to significant increases in public spending. For the EU as a whole, public spending is projected to increase by about 4 percentage points between 2005 and 2050, mostly concerning public spending on pensions and health care. The pressure on public spending will be somewhat stronger in Euro area countries. For example, spending on pensions in Portugal (+9.7 per cent of GDP between 2005 and 2050), Luxembourg (+7.4 per cent) and Spain (+7 per cent). The projected spending increases on pensions for Ireland (+6.5 per cent) and Belgium (+5.1 per cent) are also significant.

At first sight, the new Member States, whose situation is being reviewed for the first time, appear to be in a better position overall. But this overall picture is distorted by the sharp drop in public pension spending in Poland – by far the largest of the 10 countries that joined the EU in May 2004 – as a result of the switch from a public pension scheme to a private funded scheme. Excluding Poland, age-related spending in the other EU10 countries is set to increase by more than five percentage points of GDP. Very large increases in pension spending by 2050 are projected in Hungary (+6.7 per cent of GDP), Slovenia (7.3 per cent) and Cyprus (12.9 per cent).



Source: OFCE, Paris

Conclusion

It is clear from the above that Europe is making an effort to reform but in the eyes of most observers it is a case of too little too late. Individual Member States have made progress in one or more of these policy priority areas but none has succeeded consistently across a broad front. If Europe is to achieve its targets, it needs to step up its efforts considerably and act in a more concerted and determined way. In order to ensure that Member States carry out their commitments, a new focus is required along three lines: more coherence and consistency between policies and participants, improving the process for delivery by involving national parliaments and social partners, and clearer communication on objectives and achievements. Most governments' inability to develop and apply coherent strategies for economic reform has meant that the open method of coordination has largely failed. With the possible exception of Scandinavia, peer group pressure, benchmarks and mild rebukes from the Commission have not mobilised the necessary political will in most national capitals. José Manuel Barroso, President of the European Commission, has put the Lisbon Agenda at the forefront of his five-year mandate and called economic nationalism "dangerous and ill-informed", arguing that Europe could not compete if it had "25 mini-markets" in energy or services. But the European Commission has lost influence over the years and the speeches of its President tend to fall on deaf ears. Further, the Commission has been reluctant to 'name and shame' those Member States that do not meet their Lisbon obligations. Two leading economists, Jean Pisani-Ferry and Andre Sapir, have also criticised the Commission for failing to embrace the changes recommended in the Kok report that was set up to review the Lisbon process.[11)]

The EU cannot give up the Lisbon goals because they continue to reflect the major challenges that European economies are confronted with in this age of accelerated globalisation and technological change. The political class has so far been unwilling to confront the domestic lobbies ranged against reform. But if politicians lack the vision and courage to persuade their electorates of the need for reform, then the consequence will be a further decline in European living standards and the European social and economic model will have a dismal future. The key to reform lies in the core continental countries (France, Germany and Italy). Given their weight, these countries can make it impossible for the EU to function, by undermining the effectiveness of the European Commission,

11) *Last Exit to Lisbon* policy briefing and paper available at www.breugel.org

assailing the single market, resisting enlargement and opposing concessions needed to complete the WTO trade negotiations. These governments augur ill, therefore, not just for domestic reform, but for the fate of the eurozone, the EU, and the EU's role in the world. Failures of domestic politics and of public education on this scale cause more than a few little local difficulties. They have malign consequences for the wider world.

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'Time to Move up a Gear- The European Commission's 2006 Annual Programme Report on Growth and Jobs'

http://www.europa.eu.int/growthandjobs/annual-report

Other important documents can be found on the European Commission's Europa website that includes a special section on growth and employment.

http://www.europa.eu.int/growthandjobs/key/index_en.htm

Think Tanks

EPC – The European Policy Centre

http://www.theepc.be

CEPS – Centre for European Policy Studies

http://www.ceps.be

Breugal

http://www.breugel.org

CER - Centre for European Reform

http://cer.org.uk

Media

Agence Europe - http://www.agenceurope.com

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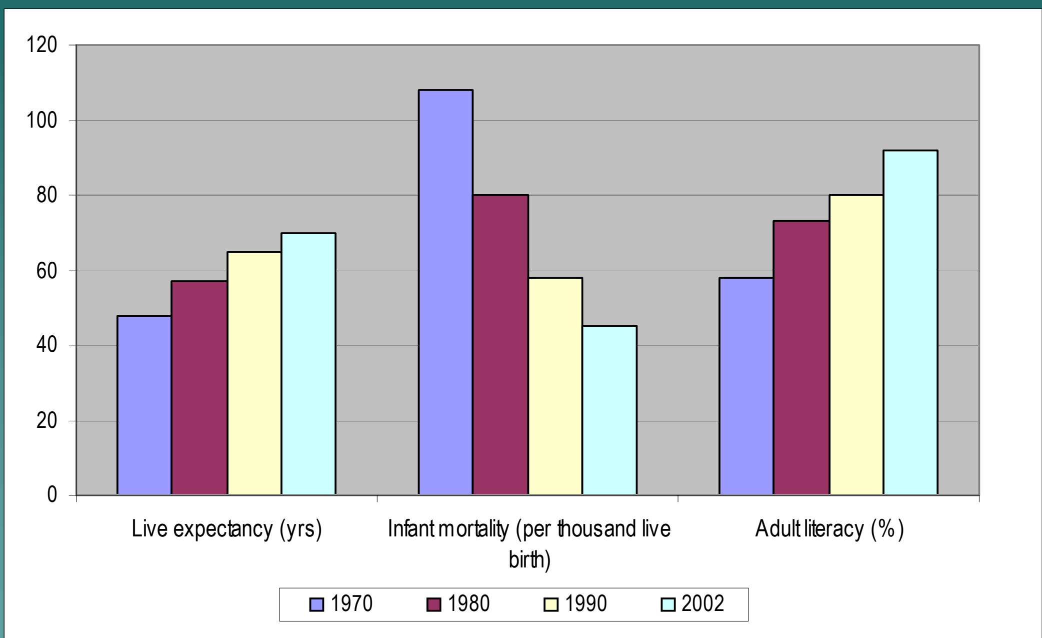
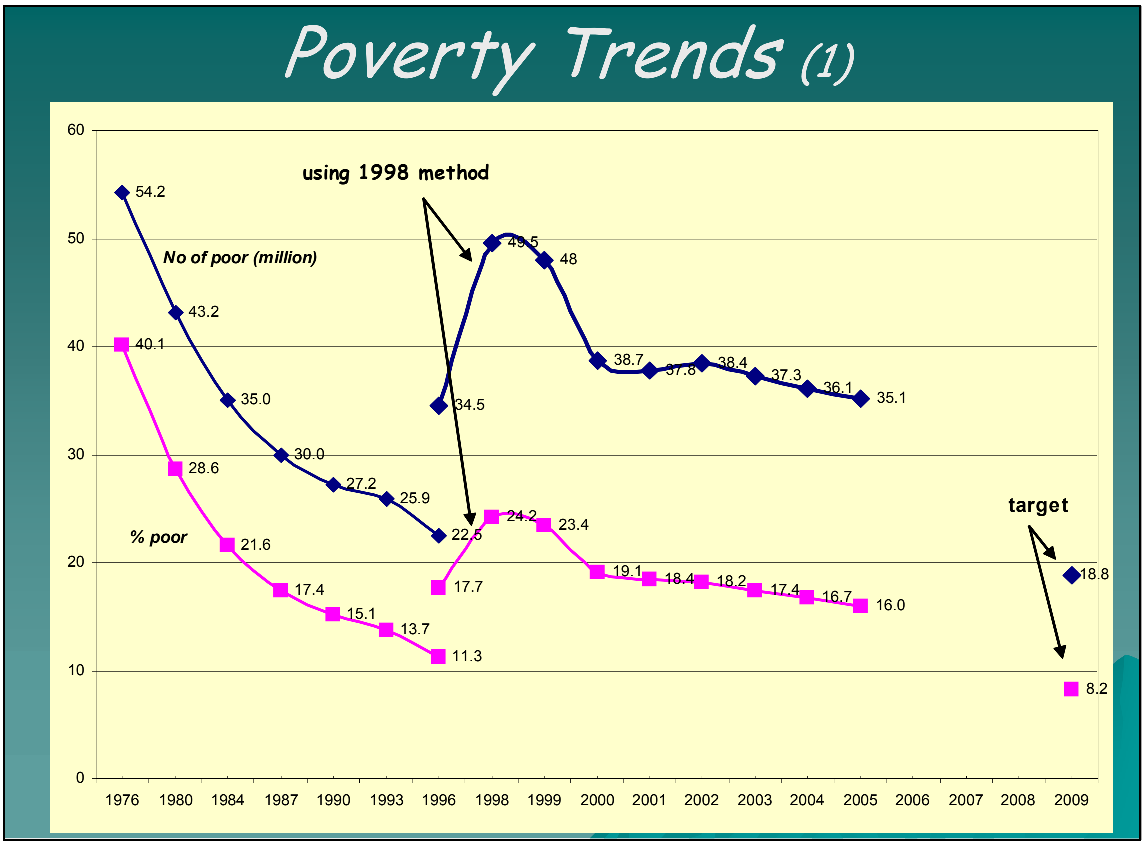
Socio-Economic Disparity of APEC Economies: Experience in Indonesia

Tb.A. Choesni
Director,
State Ministry for National Development Planning, Indonesia

SOCIAL INDICATORS, 1970-2002

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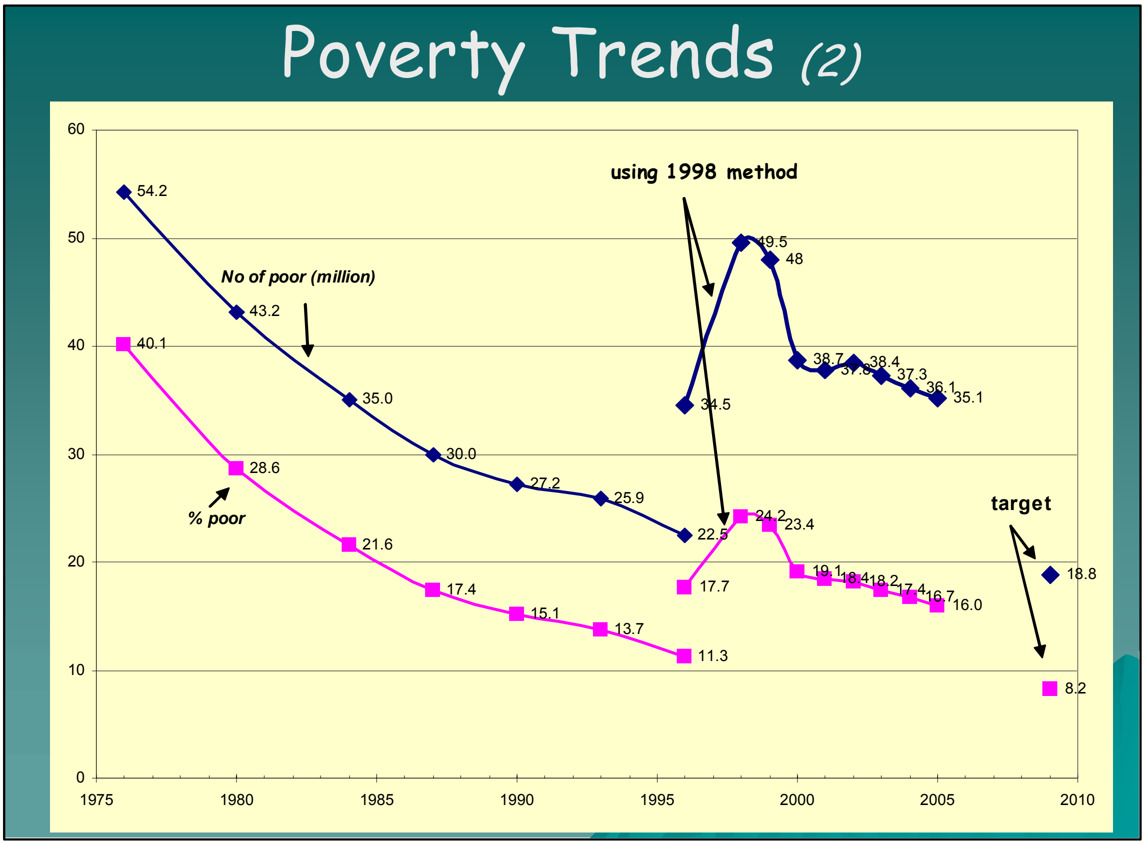
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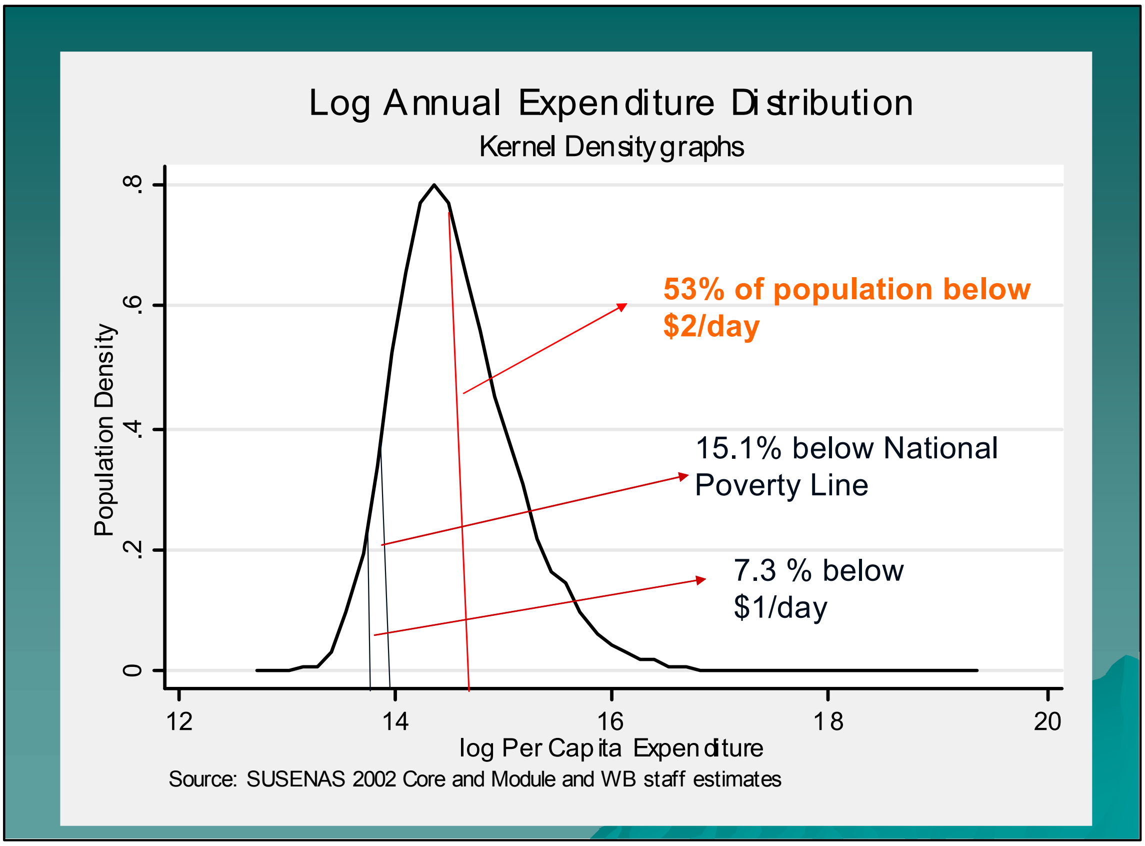
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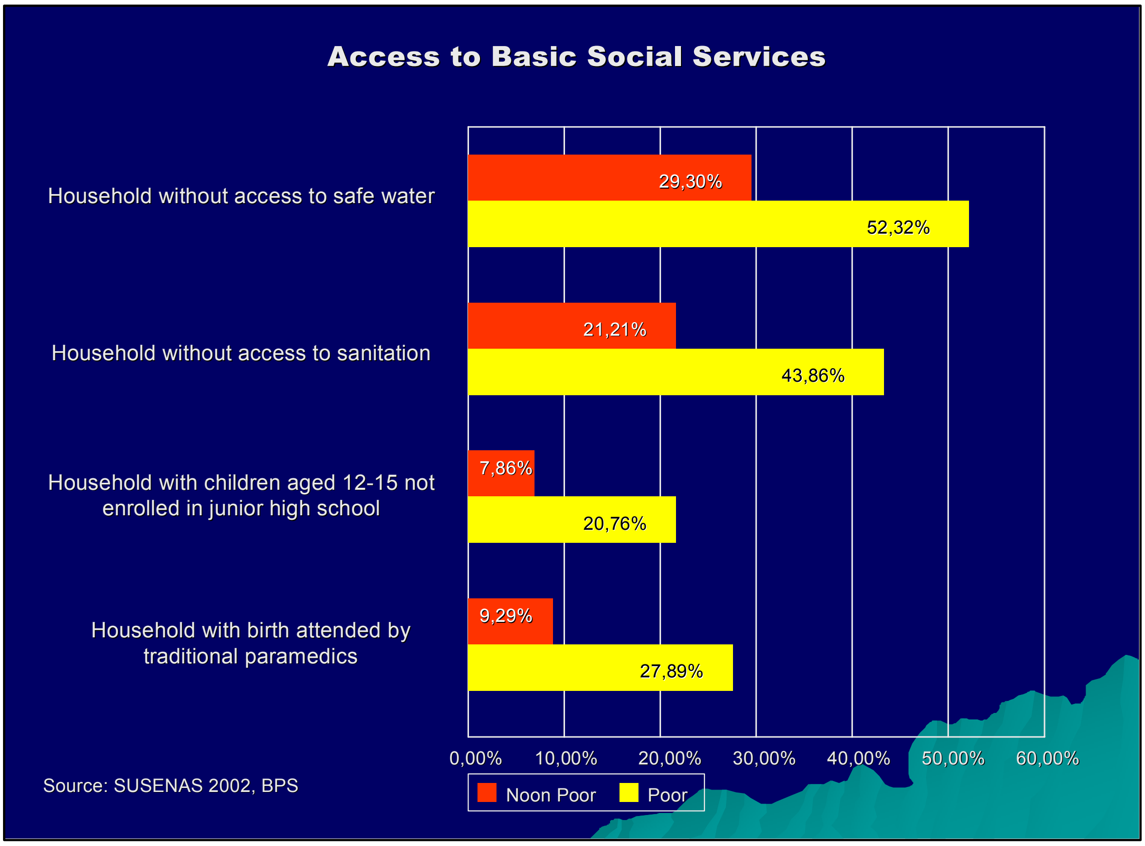
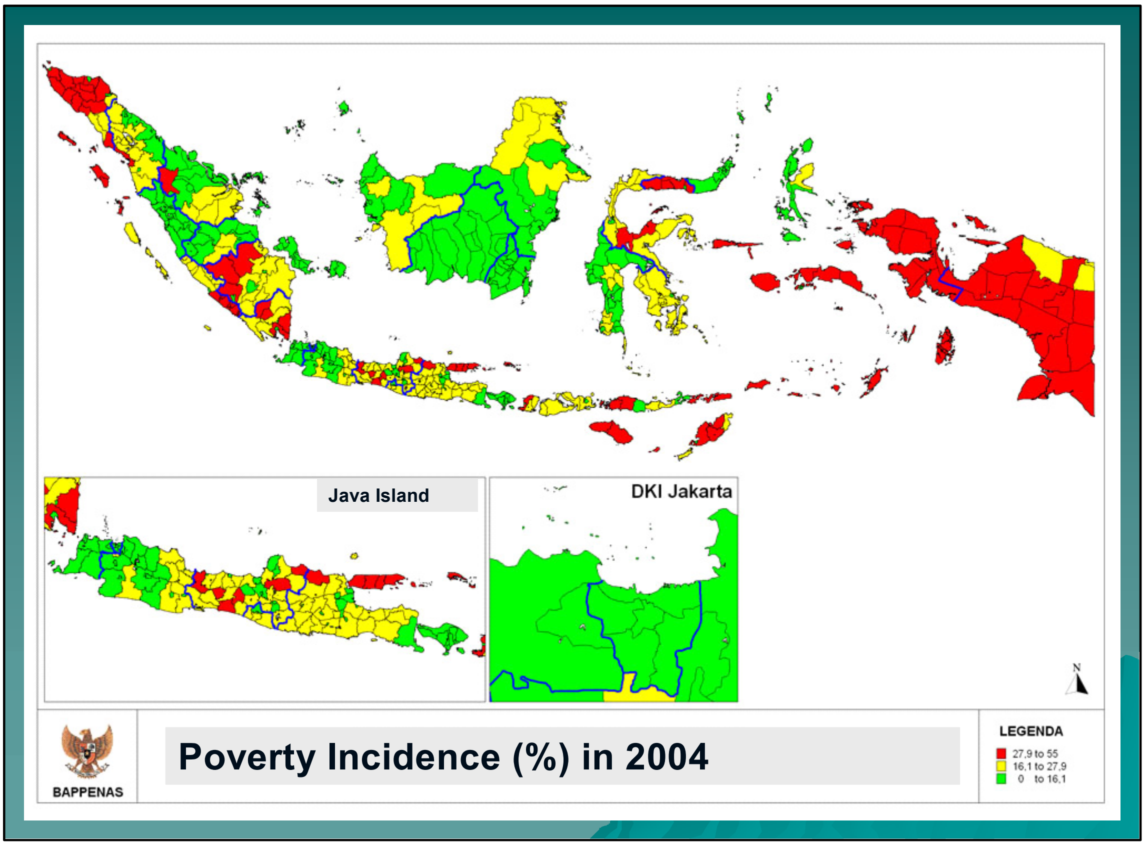
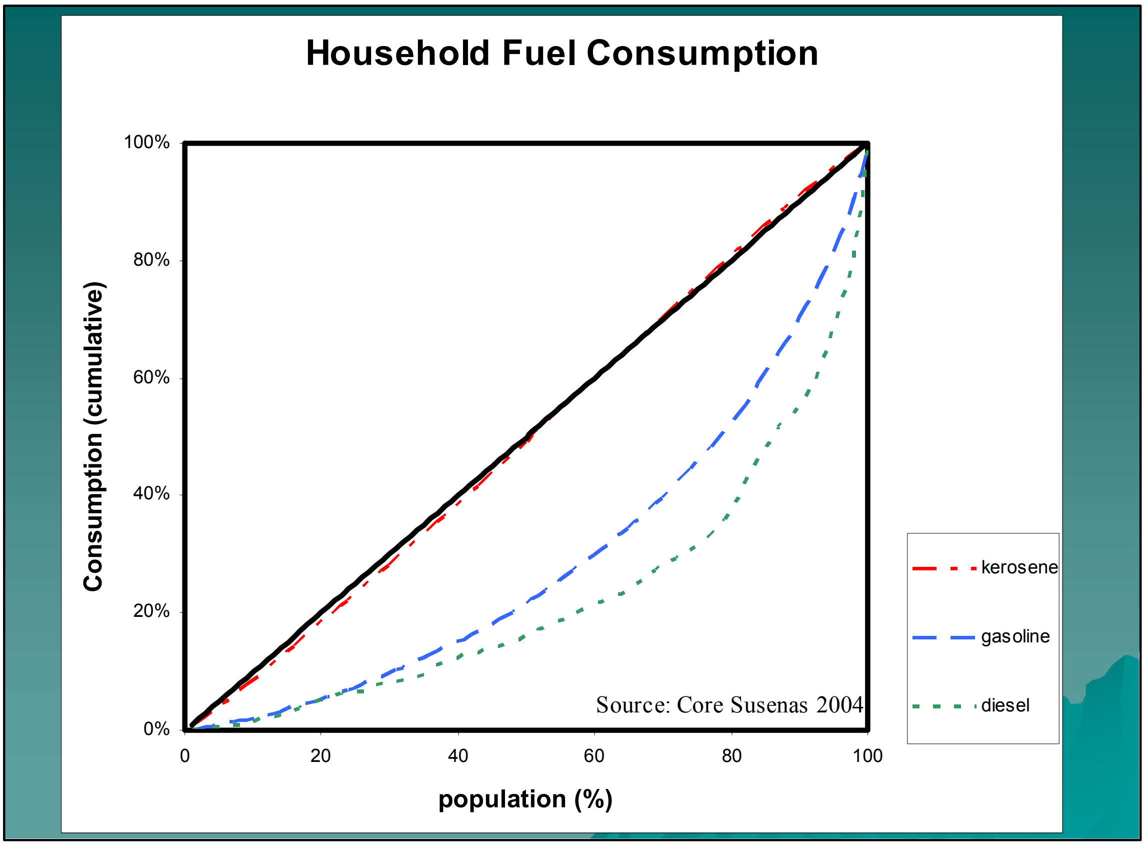
20
log Per Capita Expenditure
Source: SUSENAS 2002 Core and Module and WB staff estimates


Access to Basic Social Services
Household without access to safe water
29,30%
52,32%
Household without access to sanitation
21,21%
43,86%
Household with children aged 12-15 not enrolled in junior high school
7,86%
20,76%
Household with birth attended by traditional paramedics
9,29%
27,89%
0,00%
10,00%
20,00%
30,00%
40,00%
50,00%
60,00%
Noon Poor
Poor
Source: SUSENAS 2002, BPS



Fuel Subsidy

- Background
  - Domestically Regulated Price for Fuel
    - Gasoline
    - Diesel
    - Kerosene
  - Rising International Market Prices
    - By 2005, domestic price was less than 1/3 of (rising) international prices
      - 10% for kerosene
  - Pressures on overall Indonesian central government budget
    - By 3Q 2005 estimates of 0.9% of the GDP, >25% Central Budget
    - Rp138.6 trillion (US$13.8 billion)



Fuel Subsidy (cont'd)

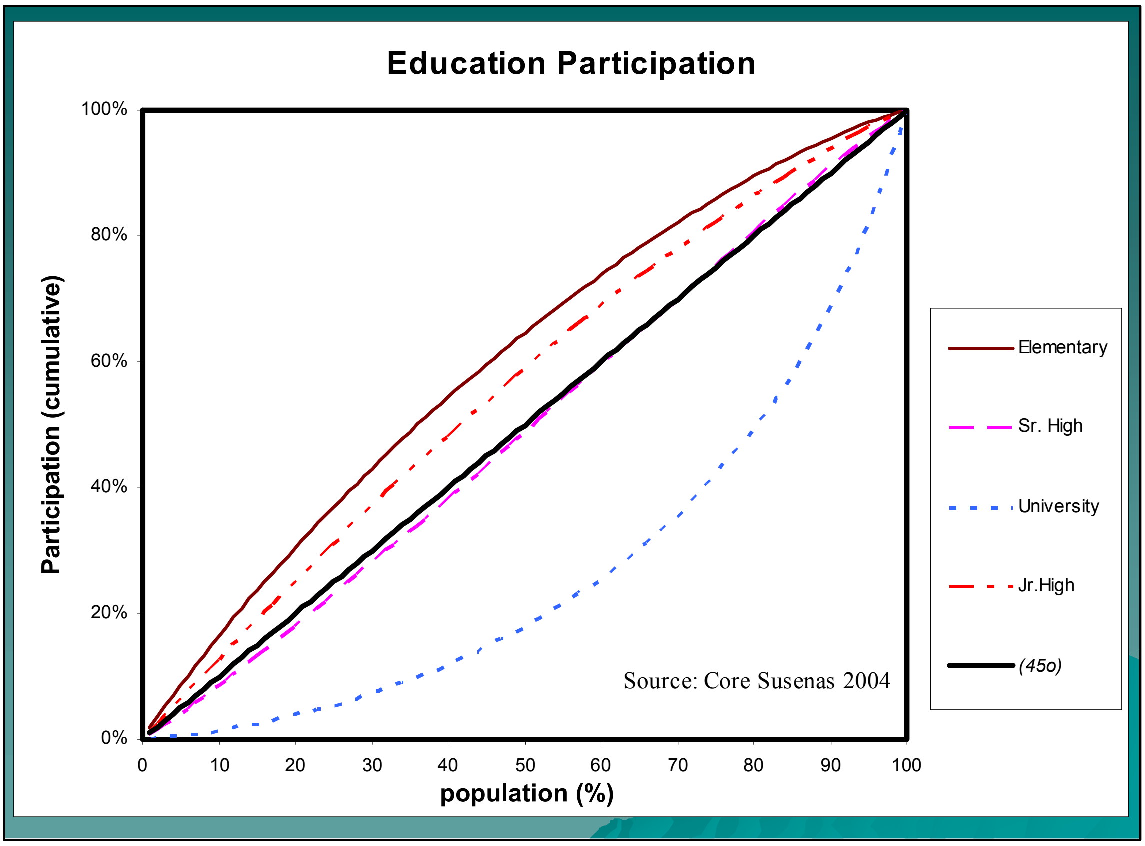
- In response to the high increase in world oil prices, the government raised domestic fuel prices in March 2005 by 29 percent and then again in October 2005 by an additional 114 percent.

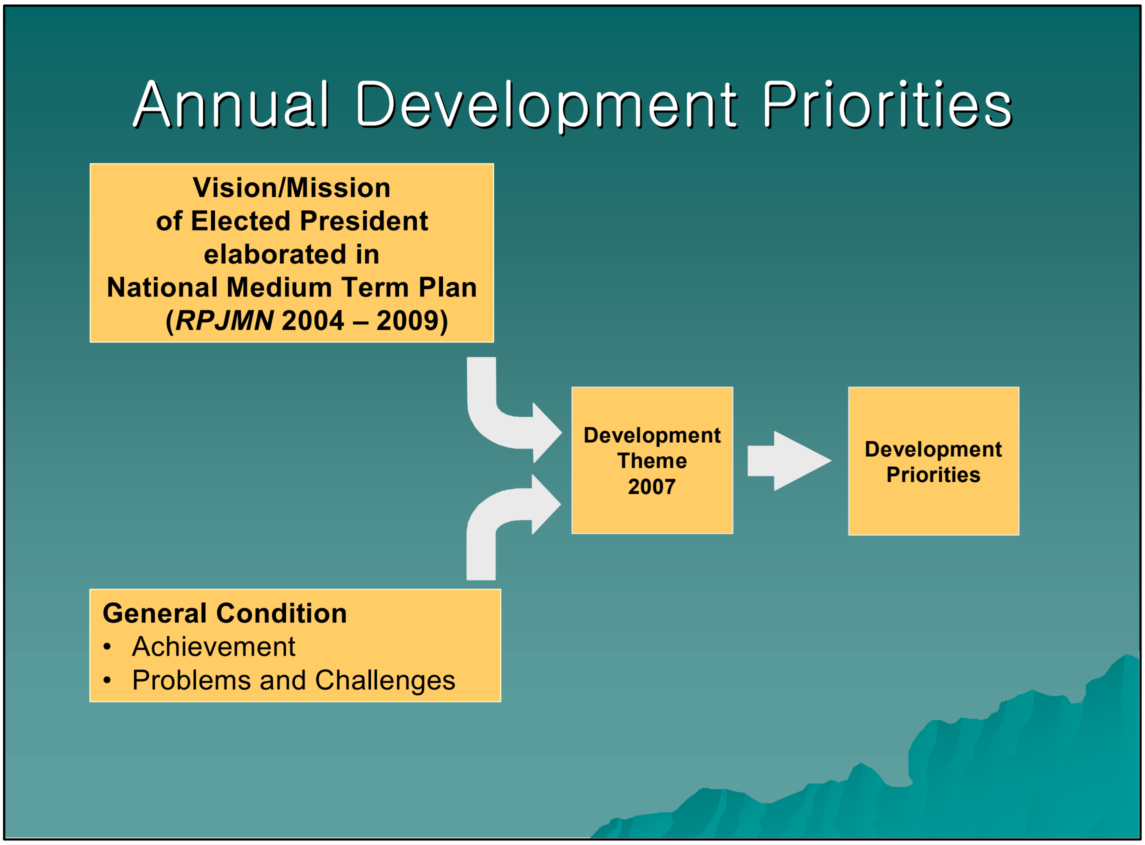
Fuel Subsidy (cont'd)

- Savings from the fuel subsidy reduction were used to fund compensation programs targeting the poor
  - Social Protection ->Unconditional Cash Transfer (UCT),
    - designed to protect the poor against the short-term impact of the price increase.
    - began in October 2005 & targeted 15.5 million poor households, or 28% of the population with quarterly cash grants of Rp 300,000.
    - program coverage was designed to be higher than the number of poor households to ensure that transfers reach the vast majority of the poor and near poor.
    - The Government provided about Rp.4.6 trillion in funds for the first tranche of the program with three tranches planned for 2006.
    - For poor recipients, the cash transfer should more than compensate for the losses incurred due to the fuel price increase. Given the size of the transfers (Rp.300,000 per quarter per family) poor households that receive the UCT would end up with enough additional income to overcome the short-term negative impact of the price hike and induced inflation.

Fuel Subsidy (cont'd)

- The Government also allocated Rp.12.5 trillion per year of the fuel subsidy savings to programs in education, health and village infrastructure.
  - Education:
    - the *BOS* (Operational Fund for Schools), which offered schools additional income if they eliminated or reduced school fees for poor students; and
    - the *BKM* (Scholarship Program for Secondary School Students).
  - Health program supports basic health care through grants to *puskesmas* (community health centers) and health insurance for the poor to receive free treatment in both *puskesmas* and hospitals (third class).
  - Village infrastructure program was designed to improve village infrastructure and to provide employment through a participatory decision-making process. At present there are 12,800 beneficiary villages, each receiving Rp.250 million.


Education Participation
100%
80%
60%
40%
20%
0%
Participation (cumulative)
0
10
20
30
40
50
60
70
80
90
100
population (%)
Source: Core Susenas 2004
Elementary
Sr. High
University
Jr.High
(45o)


Annual Development Priorities
Vision/Mission
of Elected President
elaborated in
National Medium Term Plan
(RPJMN 2004 – 2009)
Development
Theme
2007
Development
Priorities
General Condition
• Achievement
• Problems and Challenges

Development Agenda: *RPJMN* 2004 – 2009

- Creating a Prosperous Indonesia
- Creating a Just and Democratic Indonesia
- Creating a Safe and Peaceful Indonesia

Annual Development Plan 2007

Theme:

Increasing Employment Opportunities and Reducing Poverty to Increase the People's Welfare

Annual Development Plan 2007

(contn'd)

Priorities:

1. Reducing poverty;
2. Increasing employment opportunities, investment and non-oil export;
3. Revitalizing of agriculture, fisheries, forestry and rural areas;
4. Increasing accessibility and quality of education and health services;
5. Enforcing the laws, basic human rights, corruption eradication and reform of the bureaucracy;
6. Improving of defense and security capabilities, maintaining order and improvement of conflict resolution;
7. Rehabilitating and Reconstructing Nanggroe Aceh Darussalam (NAD), Nias (North Sumatra), Yogyakarta and Central Java and Mitigating and Overcoming Disasters;
8. Accelerating infrastructure development;
9. Developing border areas and remote isolated areas.

THANK YOU

A U.S. Perspective on Socio-Economic Disparities

Joseph Yun
Minister-Counselor
United States Embassy in the Republic of Korea

Thank you very much. I'm delighted to have the opportunity to take part in this APEC Symposium on Socioeconomic Disparities. I want to join my distinguished co-panelists and all the other conference participants in thanking the organizers for their vision in conceiving this symposium and their hard work in bringing it to fruition. This is a wonderful opportunity for representatives of many of the APEC economies to come together and explore this important issue and share ideas and experiences. It's a privilege to be here with you and I'm grateful for the invitation.

In my presentation this afternoon, I'd like to do several things:

- first, offer a couple of opening thoughts on the topic of socioeconomic disparities;
- second, share with you some of the public statements President Bush has made in recent years about socioeconomic disparities;
- third, talk about one common way socioeconomic disparities are measured;
- fourth, note briefly the state of, and trends in, socioeconomic disparities in the United States today;
- fifth, place the U.S. experience into a larger APEC context;
- sixth, mention some of the policy responses the United States has employed to address socioeconomic disparities within the United States;
- seventh, describe the U.S. approach to addressing socioeconomic disparities at the global level; and
- finally, try to pull it all together with a parting thought or two.

Key Premises of U.S. Thinking on Socioeconomic Disparities

Let me start my presentation by stating that since at least the presidency of Franklin

D. Roosevelt, which began in 1933, the U.S. federal government has generally tried to tackle the sources of socioeconomic disparity as a key – even the defining – objective of national public policy. The current U.S. Administration has espoused a multi-pronged approach to tackling socioeconomic disparities by working to provide greater equality of opportunity (not results) within the United States. I'll make two very basic points about socioeconomic disparities that reflect key premises of mainstream U.S. thinking on this topic.

First, at the "micro-," or domestic level: Socioeconomic disparities are part and parcel of a properly functioning market economy, a natural byproduct of free and fair competition. Simply put, market economies produce great overall wealth – but they also produce winners and losers. Such factors as industry, thrift, propensity to take risks, the quality of parenting, social and historical considerations – and let's not forget dumb luck – can cause two people who grow up next door to each other to end up at very different stations of life. In other words, though two individuals might start out with similar circumstances and resources, there's no guarantee that they will end up that way. And, more to the point, there shouldn't be such a guarantee, because if there were, what incentive would someone have to study harder, work harder, spend less, save more, delay gratification, and so on? Without socioeconomic disparities, there would be no incentives; and without incentives, there would be no such thing as a market economy. There is simply no way around this ironclad principle of economic performance: without incentives, people, as economic beings, simply do not perform; and, more generally, resources are not put to their best use.

Second, at the "macro-," or international level: There can be no doubt in this day and age that increased openness, transparency and trade leads to greater growth and prosperity for all economies involved. One need only look at the economies on this planet that are the most closed and impervious to trade – North Korea and Burma being the most obvious examples in the Asia-Pacific region – to see the tragic toll that a policy of autarky can wreak on a society and its people. In the short term, as countries transition toward their natural comparative advantages, there can be some growing pain, to be sure. But modern history couldn't be any clearer in its conclusion that those economies that open up to the global economy ultimately, and vastly, outperform those that don't. Integration of the world economy is occurring at a rapid pace and in an irreversible way; and, as study after study shows, those nations that fail to participate fully in the world economy lag further and further behind those that do. This, of course, is a fundamental premise of this

Symposium, but I think it bears reiterating at the outset of my remarks.

What President Bush Has Said about Socioeconomic Disparities

Having laid out the basic premises of the U.S. approach to understanding socioeconomic disparities, let me now share a couple of President Bush's comments on the topic.

Notably, President Bush alluded to U.S. socioeconomic disparities in his first speech to the nation as president, his First Inaugural Address. Standing on the steps of the Capitol, he said:

> *"While many of our citizens prosper, others doubt the promise, even the justice, of our own country. The ambitions of some Americans are limited by failing schools and hidden prejudice and the circumstances of their birth. ...We do not accept this, and we will not allow it. ...In the quiet of American conscience, we know that deep, persistent poverty is unworthy of our nation's promise. Many in our country do not know the pain of poverty, but we can listen to those who do. And I can pledge our nation to a goal: When we see that wounded traveler on the road to Jericho, we will not pass to the other side."*

Thus, in literally his first moments in office, President Bush acknowledged the existence of socioeconomic disparities in the United States and affirmed his Administration's commitment to do something about them.

And last year, speaking about the devastating hurricane that hit New Orleans and much of the U.S. Gulf Coast, President Bush said,

> *"As all of us saw on television, there's also some deep, persistent poverty in this region, as well. That poverty has roots in a history of racial discrimination, which cut off generations from the opportunity of America. We have a duty to confront this poverty with bold action. [L]et us rise above the legacy of inequality."*

Measuring Socioeconomic Disparities: The Gini Coefficient

President Bush's statements on the socioeconomic disparities within the United States make it clear that addressing these disparities is a priority for his Administration. But how do we quantify these disparities so as to be able to analyze, compare and discuss them meaningfully?

As scholars of the issue have pointed out, socioeconomic disparities take myriad forms, including unequal access to income and wealth, political power, healthcare, social and cultural assets, human capital, …and the list goes on. For present purposes, let me focus, as many of you have, on the issue of income and wealth disparities – which, in any case, are often a proxy, if an imperfect one, for the other kinds of disparities.

The most common scientific measure of inequality in the distribution of income and wealth is the Gini Coefficient [to which some of you have alluded in your presentations]. In a hypothetical case of perfect equality of distribution, the Gini Coefficient is "0," meaning that there is no inequality whatsoever. In this scenario, each decile, or ten-percent segment, of the population controls ten percent of the income or wealth. In a case of perfect *in*equality, the Gini Coefficient is "1," meaning that one person possesses all the wealth and everyone else in the society has literally nothing. Obviously, neither of these states exists in the real world, but there is certainly considerable variation within the 0 to 1 range.

Generally, in the real world, a Gini Coefficient of .2 to .3 is considered to be a sign of relatively equal distribution of wealth. Countries that have Gini Coefficients above .4 have a considerably higher level of inequality; and countries in the .6 range and above have such vast inequality that, in many cases, they start to tend toward social unrest. As a general rule, the developing countries span the Gini continuum, with scores ranging from .2 to .7 and up, while developed countries, for the most part, are below .4.

Socioeconomic Disparities in the United States

Where does the United States fall on this spectrum? According to official U.S. Census data, the United States' Gini Coefficient is currently around .470. What's more, the U.S. Gini Coefficient has increased with each decade since at least the middle of the twentieth century: in 1970, for example, it was .394; in 1980, it was .403: and in 1990, it was .428. In other words, U.S. income and wealth inequality has steadily increased in recent decades and is now at a level that is above the norm for developed countries.

U.S. Disparities Compared to Those of Other APEC Economies

How does the United States compare in this regard to other APEC economies? Of the eighteen APEC economies for which I was readily able to find fairly recent United Nations data, the United States had one of the higher Gini Coefficients. Only Malaysia, Peru, Papua New Guinea, Mexico and Chile had higher Ginis. Chile's Gini Coefficient was .571. I should note that China, with a Gini Coefficient of about .450, is not far behind the United States – and is rapidly gaining on us. On the lower end of the spectrum were such diverse countries as, in ascending order: Japan – which had the lowest Gini Coefficient of the APEC economies, at .249 – Russia, Korea, Canada, Indonesia, Australia, New Zealand, and Vietnam, among others. As a point of reference, Vietnam's Gini was .370. In other words, APEC is home to economies at both ends of the Gini spectrum and pretty much everywhere in between.

This suggests that many APEC economies, including the United States, have plenty of work to do in addressing socioeconomic disparities within our economies, but also, that APEC has, among its ranks, a number of economies that might have valuable lessons to share on how to address these disparities. Japan stands out in this regard, as one of only three non-European countries among the twenty nations with the lowest Gini Coefficients.

U.S. Policy Responses to Domestic Socioeconomic Disparities

Before taking up the subject of U.S policy responses to socioeconomic disparities at the international level, let me say just a few words on the topic of U.S. policy responses to domestic socioeconomic disparities.

Since at least the presidency of Franklin D. Roosevelt, which began in 1933, the U.S. federal government has generally tried to tackle the sources of socioeconomic disparity as a key – even the defining – objective of national public policy. And state and local governments have worked energetically, within the constraints of their resources, on this set of issues, as well.

The current U.S. Administration has espoused a multi-pronged approach to tackling socioeconomic disparities within the United States. Though this aspect of U.S. government work goes well beyond the purview of the State Department's mission, let me at least make mention of the some of the key programs.

To address socioeconomic disparities in the United States, the Bush Administration has, among other things, sought to:

- ease the tax burden on all Americans in a revenue-neutral way, while maintaining the basic progressivity of the current tax structure;
- foster the development of an "ownership society" in which Americans build durable wealth and exercise greater charge over their financial affairs and retirements;
- encourage entrepreneurship in historically disadvantaged "opportunity zones";
- deepen welfare reform so as to incentivize work and remedy the debilitating "psychology of dependency";
- eliminate the "soft bigotry of low expectations" and close the achievement gap by demanding more testing and greater accountability in the American educational system; and
- "rally the armies of compassion," thereby unleashing a new wave of voluntarism in the service of creating a more just and decent America.

Earlier this year, speaking to a domestic audience in Virginia, President Bush summed up his vision for creating greater equality of opportunity in the United States this way – he said: "[T]he role of government is not to try to create wealth; [it's] to create an environment in which people are willing …to work to realize their dreams. That's the fundamental policy."

Though the obstacles to greater domestic socioeconomic parity are, as the President has stated, systemic – and, in some cases, deeply rooted in American history – some evidence suggests that we're making strides in the right direction. For example, minority home ownership is at an all time high; and some data indicate that the educational achievement gap – the difference between the test scores of white students and minority students – is closing, at least in some parts of the country. Another interesting testament to the vitality of the American Dream comes from a book, *The Millionaire Next Door*, whose authors studied wealth in America and found that about two-thirds of American millionaires are first-generation rich – meaning that they started with little and ended up with considerable wealth by virtue of their own efforts. These trends and facts suggest that we are meeting with at least some success in dealing with socioeconomic disparities within the United States, though clearly, there will always be more work to do.

Time constraints – and, admittedly, constraints on my expertise – preclude me from delving into the substance of these policy approaches or the results they have produced, but for those of you who are interested in the details of these programs, I would refer you to the White House website, www.whitehouse.gov, which has a lot of additional information on them.

U.S. Policy Responses to Global Socioeconomic Disparities

Let me now turn to the United States approach to socioeconomic disparities in the world, that is, between hemispheres and countries. President Bush has addressed this theme on a number of occasions and, if you'll permit me, I'd like, once again, to cite his comments on the subject.

In 2002, at the United Nations Financing for Development Conference in Monterrey, Mexico, President Bush said,

> *"I'm here today to reaffirm the commitment of the United States to bring hope and opportunity to the world's poorest people.... We fight against poverty because hope is an answer to terror. We fight against poverty because opportunity is a fundamental right to human dignity. We fight against poverty because faith requires it and conscience demands it. ...By taking the side of liberty and good government, we will liberate millions from poverty's prison. We'll help defeat despair and resentment. We'll draw whole nations into an expanding circle of opportunity and enterprise. We'll gain true partners in development and add a hopeful new chapter to the history of our times."*

At Monterrey, the world agreed to a new vision for fighting poverty, curbing corruption, and providing aid in the new millennium. Developing countries agreed to take responsibility for their own economic progress through good governance, sound practices and the rule of law – and developed countries agreed to support these efforts. Accordingly, the United States changed the way it delivers aid, establishing a new Millennium Challenge Account that increases aid for nations that govern justly, invest in their people, and promote economic freedom. Through the Millennium Challenge Account, the United States is seeking to reduce poverty through sustainable economic growth on a global level.

The best means of spreading the Earth's abundance, however, is not through aid, but trade. After all, developing countries receive approximately $50 billion every year in aid, but almost $200 billion in foreign investment – and a staggering $2.4 trillion in exports earnings. So, to be serious about fighting poverty in the world, and reducing the disparities between the nations that have the most and those that have the least, we must be serious about expanding trade. And the best opportunity to deliver the blessings of trade to every citizen in the world is the Doha Round of negotiations in the World Trade Organization.

In his 2005 speech to the United Nations, President Bush put it this way:

"A successful Doha Round will reduce and eliminate tariffs and other barriers on farm and industrial goods. It will end unfair agricultural subsidies. It will open up global markets for services. Under Doha, every nation will gain, and the developing world stands to gain the most... The elimination of trade barriers could lift hundreds of millions of people out of poverty over the next 15 years. The stakes are high. The lives and futures of millions of the world's poorest citizens hang in the balance – and so we must bring the Doha trade talks to a successful conclusion."

As all of you know from working with the United States in APEC an other multilateral fora, the United States also works actively to build capacity in the developing economies to ensure that these economies have the structural and policy wherewithal they need to get the maximum benefit out of participation in the global economy.

In these ways – by providing focused aid, promoting free and open trade and investment, and helping to build capacity where needed – the United States is working actively to reduce socioeconomic disparities between nations.

Conclusion

Let me wrap up with a concluding thought. As we talk about socioeconomic disparities both within and between our economies, it is easy to get lost in data, forgetting that, in the final analysis, a discussion of socioeconomic disparities is really about dignity and dreams. As President Bush told a domestic audience earlier this year, "[America] is a place where you can start with zero, you start with a dream and a good idea, and take a risk and realize your dream. America has got to be a place where dreamers can realize their dreams." In essence, that's what any discussion of socioeconomic disparities is really all about: giving people the chance to live their dreams. And because dreaming and aspiring are such inherently human undertakings, addressing socioeconomic disparities is not merely a public policy enterprise – it's a moral enterprise. As President Bush said,

"Our common ideal of social justice must include a better life for all our citizens. In free

societies, citizens will rightly insist that people should not go hungry, that every child deserves the opportunity for a decent education, and that hard work and initiative should be rewarded. ...The nations of [the world] have a moral obligation to help others."

Tackling the socioeconomic disparities within and among our societies is certainly hard work, but it's work that must be done, and it's work to which the United States is deeply committed, both at home and abroad. Thank you very much for this opportunity to share a U.S. perspective on this important topic – I'm very grateful.

Policy Options Tackling Socio-Economic Disparity in APEC

Heungchong Kim
Research Fellow, KIEP, The Republic of Korea

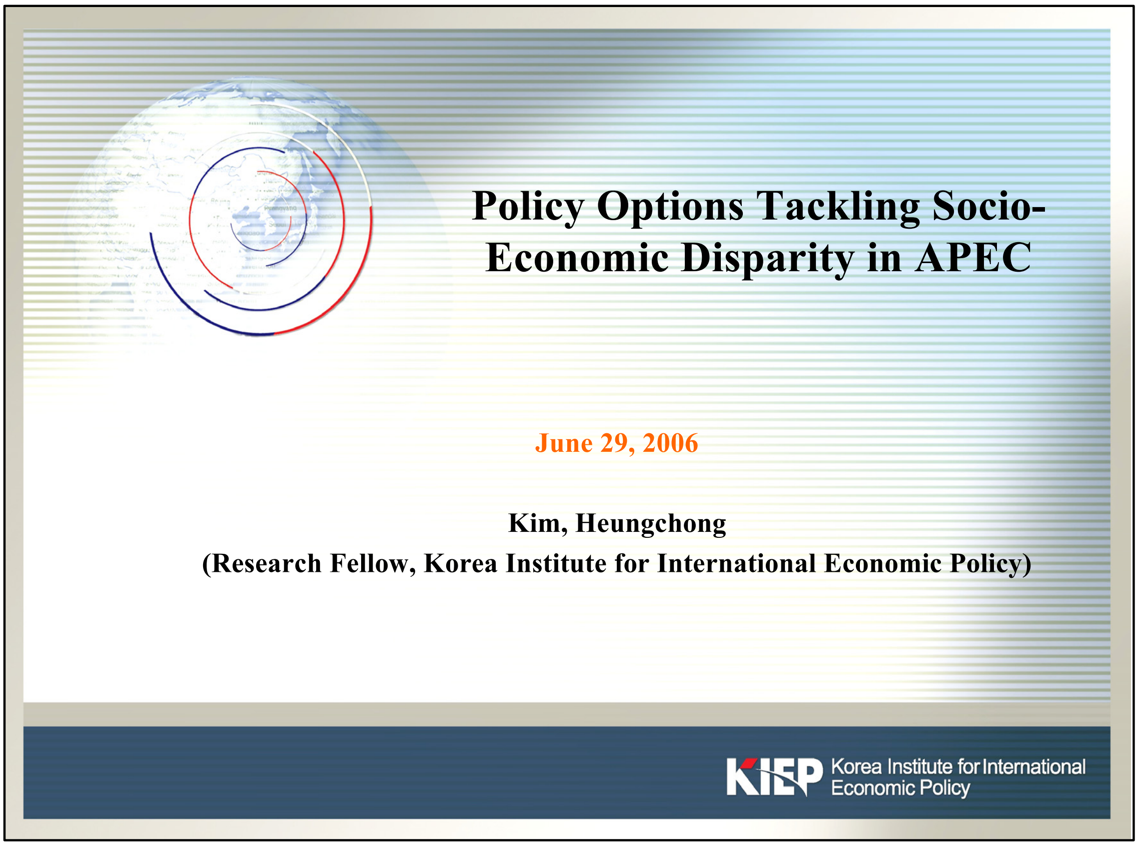


Table of Contents

I. Background of the Research

- Trade and Investment Liberalization and Sustainable Economic Growth in the APEC economies
  - Widening socio-economic disparity hinders the benefits generated by trade liberalization and economic growth shared by all people in the region, which consequently endangers further liberalization.

- The research aims at deepening the understanding of socio-economic disparity issues, sharing experiences and policy responses among APEC members, and exploring model policy examples that help to reduce the disparity.

- Relevant to the 2006 APEC Leaders' Meeting Theme
  - "Towards a Dynamic Community for Sustainable Development and Prosperity… for gap bridging and sustainable development…. Promote community linkages.

II. Conceptualization of Disparity and its relations with the APEC goals

- Socio-economic disparity and Socio-economic exclusion
  - Problems and tension in widening socio-economic disparity arise when some people in a society are systematically excluded in the virtuous economic system cycle. e.g. structural isolation
  - Widening disparity vs. social immobility

- Disparity in income and employment
  - Disparity in income through the degree of skills, years of schooling
  - Disparity in job opportunities, poverty and unemployment
- Disparity in access to information, health and education
- Disparity in regional development
- Disparity among industries and among firms

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II. Conceptualization of the Disparity and its relations with the APEC goals

- TILF and Socio-economic disparity
  - TILF is undoubtedly an engine for creating wealth in a society, but marginal groups who have the least ability to accommodate themselves to the rapidly-changing environments are hit by the shock.
  - TILF can lead to economic reform and anti-corruption which may help provide more opportunity to the disadvantageous groups.

- Economic growth and Socio-economic disparity
  - Demand side: creation of a middle class through narrowing the disparity stimulates total demand, leads to economic growth
  - Supply side: widening the disparity curbs full-utilization of human and physical resources available in a society, leads to negative impact on long-term economic growth
  - Toward a healthy and integrated society

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III. APEC Activities on Socio-economic Disparity

Strengthening Social Safety Net and Capacity Building

- The Asian financial crisis hit marginal groups of the economies in crisis.
- "An assessment of …. policies.. including measures to strengthen social safety nets to help cushion the impact of the crisis on the poor" (1998 FMM)
- 1998, 1999, 2000 and 2001 APEC Leaders' Agreements emphasize the importance of strengthening SSN to reduce harmful effects on vulnerable groups.
- Creating and running SSN CBN was initiated in 2001 and SSN CBN officially launched in 2002 in Seoul, with a linkage to HRD working group – one of the concrete achievements the APEC members have agreed to make.

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III. APEC Activities on Socio-economic Disparity

Transparency and Anti-corruption

- CTI: 1995 Osaka Action Agenda and 2001 Shanghai Accord – Sub-Committee on Customs Procedures, the Government Procurement Experts Group and the Business Mobility Group
- Following APEC Leaders' instruction in Santiago in November 2004, ACTTF (Anti-Corruption and Transparency Experts Task Force) was established in 2005 and its first meeting was held in September of 2005.
- Promoting collaboration among APEC member economies.. is considered one of the priority areas of the TF (2005/ACTTF.SYM/023).
- Cooperation in capacity building area is important.
- Anti-Corruption measures for the development of SMEs – Corruption has a disproportionately negative impact on SMEs and MEs (APEC project for 2006 and SME anti-corruption capacity building workshop in February 2006)

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III. APEC Activities on Socio-economic Disparity

- Measures for narrowing Socio-economic Disparity (I)
  – Capacity Building

  - To ensure socio-economic inclusion and restore linkage to a society, disadvantageous groups need to build their capacity to enjoy the benefits of globalization and liberalization
  - Task for capacity building may have more weights in the disparity issue.

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III. APEC Activities on Socio-economic Disparity

- Measures for narrowing Socio-economic Disparity (II)
  - Economic Reform

  - Economic reform can help strengthening linkage
  - The phenomenon of socio-economic disparity is closely correlated to the overall structure of a society or an economy.
  - Disadvantageous groups must have access to equal opportunity as means to gain social and economic capital. Structural reform contribute in dissolving disparity by facilitating the groups' access of equal opportunity of information, credit, education, etc.

  - Imperfect capital market, especially in loan market, disproportionally influence marginal sectors who have little initial endowment.
  - Poor people are hit harder by low quality of public educational system.
  - Backward regions, more dependent on governmental economic activities, are more vulnerable to government failure.

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III. APEC Activities on Socio-economic Disparity

- Measures for narrowing Socio-economic Disparity (III)

  - anti-corruption

  - Bold actions for anti-corruption can help restore disadvantageous groups' linkage to a society/economy.
  - Corruption produces exclusive vested interests which create insiders/outsiders in a society.
  - Disadvantageous groups who are excluded in a circle of corrupted insiders, cannot get a fare opportunity in gaining access to credit, information and other social and economic capitals.
  - Corruption vs. Social Capital

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IV. Policy Implications and Future Direction of APEC Activities

- **Basic Direction: Restoring linkage in a society**

- A narrower concept of social security including public assistance has clear limitation in combating the widening of socio-economic disparity.
- Accumulating human capital in a society is important to encourage economic growth and prosperity, but it would be critical to solve the widening of disparity to make huge investment which creates human capital in the most devastated parts of the society.
- Capacity building is crucial but not enough to address the entire disparity issue. Economic reform and anti-corruption can help towards the full-utilization of the public's capacity.
- The mid-term target in tackling the issue can be, focusing the poorest groups and the poorest regions supported by the policy-complex so that a certain amount of social mobility is maintained.

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IV. Policy Implications and Future Direction of APEC Activities

- APEC has done a lot of work in creating and developing measures to address disparity issues.
- The research aims at re-interpreting on-going works under the criteria of socio-economic disparity in order to develop further policy measures.
- The research aims in creating new policy agenda to combat the widening of socio-economic disparity

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Thank you

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Session 4: Wrap-up and Closing

Presentations

Moderated by Kyung Tae Lee, President, KIEP, The Republic of Korea

There is no written paper for this session. For the discussions of this session, please refer to "Session IV. Wrap-Up and Closing" of the Verbatim paper.

Verbatim

Session I. Socio-Economic Disparity in APEC and the World (Scope, Current Situation and Trends)

Announcement

Welcome honorable guests. Please be seated. We will now begin session one. The first session titled 'Socio-Economic Disparity in APEC and the World' will be moderated by Dr. Fraser Cameron. Three presentations will be made by Mr. Raymond Torres, Dr. James W. Dean, and Professor Hsiao-hung Nancy, respectively.

Fraser Cameron *(Moderator)*

Good morning. We have a very interesting session this morning with four parts. We have three speakers and the opportunity for people to ask questions; the people with microphones will pass them out to you so that you could do so. Our first speaker is Raymond Torres from the OECD and Raymond, who went all the way to New Zealand a couple of years ago and spoke on very similar topics about which he is very knowledgeable, is in an ideal position in the OECD to have the data and analysis of what is happening in labor markets and be able to compare, contrast, and draw important conclusions for us about the implications on what is happening. Professor James W. Dean is an emeritus professor at Simon Fraser University and is the Ross distinguished professor at Western Washington University. He will be speaking on socio-economic disparity in APEC with special reference to Canada. He also has very interesting information on a human development index, an index of worker well-being, what is going on behind those indexes, and what is causing the changes in them. Last but not least, Nancy Chen, who is a professor at the department of sociology at National Chengchi University, Taipei, will introduce a broader view and will be talking to us about inequality, poverty, and their link to fertility, migrant workers, ageing, and single-handed households. After the intriguing speeches of our speakers, we will then have an opportunity for discussion.

Raymond Torres *(OECD)*

Thank you, Mr. Cameron. First of all, I would like to thank KIEP and APEC for organizing such an appealing meeting of great significance, for the topic is absolutely central for the reformation process in many countries, not just APEC economies, but also in the OECD area in general. The purpose of my presentation will be to discuss issues regarding socio-economic disparities within countries. So, like Professor Cooper who focused mainly on disparities between countries, my presentation will focus mainly on disparities within them with particular reference to OECD countries. And the fundamental questions will be, of course, how difficult it is for disparities to be overcome within countries, to what extent they are related to globalization or to the different dimensions of globalization, and more importantly, to what extent policies can play a role in shaping the links between globalization and disparities or indeed, the evolution of disparities.

In terms of globalization, I would simply like to emphasize what is new because some people have said, in fact, that there is nothing new about the wave of globalization and that this is a process which has been going on for decades, if not for a century and a half. Nevertheless, we find new dimensions of globalization through observation and this is very important for understanding the process itself. The first I would like to mention is that there are enormous labor-rich countries throughout the world which have been integrated into the world economy, like an earlier process of rapid globalization in the beginning of the twentieth century in populated countries. Therefore, the number of players has grown enormously. The second new dimension, which is more prominent, is new technology. We now have a process which includes many more countries and much more new technology. What is characteristic of this new wave of globalization is that it is driven to a large extent by the possibility to fragment the production process and indeed to outsource it, within countries or outside them. It is eminent that outsourcing between countries is discussed. For example, in the case of the U.S., about 22 percent of the input in the manufacturing sector is now imported from other countries. And this is about 3-4 times more than two decades ago. You can see that in the figures on the papers. This rapid process of technological change, which allows us to fragment the production process both in industries and in services, is a major asset in globalization itself. This is new in the sense that this phenomenon of globalization is not only taking place in industries, but also in services and sales. So in fact, we are practically talking about the entire labor market, where practically everybody is involved in globalization now, whereas in the past periods of globalization, we were merely talking about the culture industry. Here, we are talking about everybody. One demonstration of this is the figures in terms of the stock of Foreign Direct Investment (FDI). This is extremely important, for it shows that in the service sector, there is a growing presence of other operators, whether domestic or foreign. So in the world today, the stock of foreign investment represents nearly 20 percent of world GDP, compared to 8 percent in 1990. This is clearly a spectacular increase in foreign investment over the past 15 years not just in OECD countries, but also in developing countries. In Korea, FDI has also grown from approximately 2 percent in 1990 to 8 percent today, a four-fold increase.

What do we see in terms of socio-economic disparities within countries? Here I would like to emphasize some myths and realities, because there is a lot of talk saying that disparities grow all over the place. In fact, one has to be very careful when discussing what is going on, so I will first talk about aggregated facts and links between globalization and growth or employment in general. Then I will mention some trends in terms of disparities within countries and its very important links with instability within the labor market, a new area that I believe deserves a lot more research as it is very important.

In terms of aggregate growth effects, I think the majority of studies conclude that, in general, those with more open markets tend to be associated with faster economic growth, or at least higher per-capita income. That is the case when you compare globalization with non-globalization. Though it seems overly optimistic, generally, countries that integrate into the world economy perform somewhat better than countries that do not integrate into the world economy. We ourselves undertook some studies. I will not mention too much OECD references because you would be bored by this, but I will mention this one: the study, which looked at the sources of economic growth or possible sources of economic growth, found that trade openness was associated with higher per capita income. 10 percent of higher openness would be associated with a 4 percent higher per-capita income on average in OECD countries. It is also the case that the association between globalization and economic growth in general is strongly influenced by policies and institutions. This goes back to what Professor Orszag mentioned earlier, that policies and institutions play a very important role. Of course, there are also cases of countries integrated into the world economy that perform worse than before. It very much depends on the policies and institutions in place. The second type of link is distributional effects. As I mentioned before, I am going to look at three effects: aggregated effects, distributional effects, and the impact on the stability of labor markets, which are all somewhat different. In terms of distribution, one remarkable empirical regularity within countries, let me emphasize this, is that there is a growing earnings inequality. This graph for those who are myopic, they will not see very much the names of the countries. And that is not very important. What is important is that you see most of the countries are above the line. This means that in most of the countries, earnings inequality has become more unequal since the middle of the 90s and the same goes to when you compare the middle of the 80s with the middle of the 90s. In other words, we have growing inequalities in terms of distribution between the top earnings and the bottom earnings. There are only three exceptions to this general pattern, Ireland and Spain, as well as a little bit Japan, which is very close to the line, but below it. Nevertheless, in all other countries, we see a growth in inequality. I must add that the actual inequality is probably even greater because there are great difficulties in measuring top earnings in most countries for statistical reasons. It is not possible to precisely record the top earnings, so when we look at other databases, we see that the top 1 percent of earners have earnings that increase even faster than the top 10 percent. This data is more detailed in group comparison and it shows something very peculiar, which is in fact that the wage of young people are relatively declining vis-a-vis their prime age counterparts. Simply put, one of the aspects of growing inequality is that it is young people as well as low-educated people who are experiencing the increasing inequality in wage. It is not just earnings, but also in terms of employment that we see somewhat greater inequalities and that can mainly be seen among the lower-educated. This graph shows that for all OECD countries, without any exception, the lower-educated have lower participation rates in the labor market than their higher educated counterparts. Not only that, but their relative situations have tended to deteriorate over the past fifteen years or so in reality, not in all countries but in the majority of them. So in some, it is to my grief that the situation of the lower educated has really deteriorated, either in terms of earnings or in terms of employment or worse, in both. To what extent are these trends in inequality in wage distribution explained by globalization? Because it is one thing to observe a parallel increase in globalization and in inequality and another thing to say one attributes to the other. The causality is not, of course, automatic. Here it has to be said, I think it was mentioned earlier today, that the majority of studies suggest that trade and foreign investment are a significant explanation but of a small part. It is statistically significant trade and investment that would explain about 5 to 10 percent of growing inequalities in the labor market. That is more or less what the majority of the studies would suggest. A larger proportion of inequalities would be explained by new technology rather than by trade and investment.

To what extent globalization and new technology are associated is another issue, but certainly the fact that direct trade and foreign investment explains a small proportion of growing inequality is still a significant one.

Now there is stronger evidence in terms of instability in the labor market and here, I am going to immediately shift to the next slide. We have stronger evidence that trade and investment can have a significant impact on the employment of people, and this goes back to the common perception that people who lose their jobs say, "I have lost my job because I was displaced by a foreign company, because my company was no longer competitive, or because my company was delocalized to another company." This is what we hear and it is not valid as an argument, which we economists often say, but to look an aggregate trade and investment explains very little. So you should not complain. I think this graph in a way, reconciles both positions because it shows that for people who lose their jobs as a result of trade displacement, the impact can be large. In the U.S., 38 percent of people who lost their jobs in manufacturing as a result of trade have not found a new job within the following 2 years, according to this study that we published in 2005. For those who found a job again in the U.S., they did so, but on average they suffered a cut in their wages by 13 percent. Consequently, it can have a large impact on employment, re-employment, or wage. In the case of European countries, we conducted a comparison with the U.S. The impact on employment was larger than that on the U.S., with nearly 50 percent of the people displaced by trade unable to find a new job within two years of their displacement. Moreover, their ability to find a new job is practically zero, presumably due to the specific wage formation institutions in Europe. So in fact, even though this is not a large sector of the labor market which may be affected by trade or investment, what matters is that for those who are affected, it may entail a trauma with strong impact in terms of their employment, earnings, or both. What can governments do in this situation where there is a parallel increase in globalization and in certain dimensions of disparity and more turbulence in the labor market? Here, I will not mention human capital development and better education because it was mentioned in the first presentation by the minister and it is of course the best long-term solution, human capital, better education for all. Furthermore, for us OECD, my view is that we ask member governments to provide a solution not in 20 years time, but tomorrow, if possible today and in two years' time at the latest. I cannot just wait twenty years for the government to implement their solution and make it fruitful, so let me emphasize again: education is the first best solution, but we must find other solutions at such an urgent moment. Three types of policies are normally mentioned here: the policy that aims at speeding up adjustment in the face of globalization, the policy of redistribution between winners and losers, and the policies for people who are displaced by trade or foreign investment. I will emphasize each policy since they look very easy, but are not easy at all in reality. I will also mention some policy dilemmas and complexities. In terms of the first one, the question is how to promote faster adjustment in the face of globalization. The first policy's purpose is to reduce recruitment obstacles because globalization means that you have new opportunities in certain sectors and fewer opportunities in other sectors. People have to move from declining sectors to new sectors, and in those new sectors, employers should have less recruitment difficulties and obstacles because otherwise, they will not recruit people with permanent contracts if not recruiting any at all. Other reasons for the first policy are to reduce taxes on low-skilled laborers given the difficulties of people with lower education, to activate people who are out of work in various ways or also to remove obstacles from competition in the product market to speed up the response in sun-rising sectors. The difficulty here is that this type of policy means the risk is shifted almost entirely to workers because it often means that you have labor market deregulation. Therefore, the question posed to us is how to do this in a way that at the same time allows us to maximize the benefits and to speed up the adjustment process while still protecting workers from this kind of process. So I will mention a few possibilities in this regard. The second policy mentioned is how to redistribute, as you will remember from tax cut economics, trade organization is pared to optimal, because the total gain is positive even though some people lose out. Consequently, there would be theoretical possibilities to compensate the losers. In practice however, it is very difficult to compensate the losers. One way, the most important way, is to provide a social safety net and to provide social benefits. The other is to make work pay, and at the same time provide re-employment bonuses or ensure that you are better on pay rather than on benefits. The third is to have a progressive tax system and last but not least, to avoid systems that push people out of the labor market such as early retirement. Early retirement is not so much of a problem in APEC economies, but in European countries, it is certainly a big danger. These are all very good ways, but the difficulty lies twofold. First of all, who will pay for the social safety net? We talked before about training and human capital investment. Make work pay policies mean providing subsidies to people; activation policies to help people get back to employment also means more employment services, more public employment services, and more staff to work there. Who will pay for all this? It is a major issue, especially at a time when there is a certain tax competition among countries, which means that every country is trying to reduce the corporate tax rate and the high income tax rate. That is the key issue here. The second difficulty lies with the people who you try to help through the social safety net: how will workplaces avoid benefit dependency? It is true that an activation policy is very important at this point, but these are two major policy dilemmas that come along. I will make my presentation brief and end shortly, because we do not have very much time left. I mentioned the trade displacement problems, which can be addressed through trade adjustment assistance, but here as far as we can tell, only one OECD country provides specific trade adjustment assistance, which is the U.S. All the other OECD countries have no specific trade adjustment assistance. They use general tools for adjustment in general or not even adjustment, simply safety nets. You may look in the paper for the pros and cons of the different systems. Just to summarize, I think there are two basic approaches of how governments can support the process of adjustment in the face of globalization. One way is through what I would call the market approach and that is the left hand bar here. The market approach emphasized low welfare benefits to avoid welfare dependency, light regulation to speed up the adjustment process, and low taxes as a result. I think it has to be said that the countries that adopt this market-based approach enjoy high employment and often high growth as well with a small tax burden. I think they are successful in this respect, given that they work on labor market issues. The drawback of course, is that there is insecurity in the labor market because you have few welfare benefits compared to other approaches. A new approach, which also seems to be successful and documented extensively in several other publications, is what we call the Flexicurity (flexibility+security) approach, which provides much higher welfare benefits. For example, in Denmark, people are given something like 80 percent of their wage in terms of unemployment benefits for up to four years. Yet, they do that in a way that activates people in the labor market to avoid benefit dependency. These countries have moderate regulations, not light regulations, nor overly strict. Of course, the drawback for this is that they have to pay much higher taxes than the first approach, but it certainly works. Employment in these countries is as high, if not higher than, for example, in the U.S., but yet again, the drawback is higher taxes. Countries that choose this secondary approach have to be aware of this, although the benefits are there in terms of employment and less insecurity. I will not go in detail into the third approach, which is neither one nor the other, and certainly not into some European countries, which do very little. Now, I would simply like to conclude that inaction is not an option in the face of globalization. Thank you very much.

Thank you.

James W. Dean *(Professor Emeritus, Simon Fraser University)*

I would like to add my voice to the others in thanking both KIEP for organizing this conference, symposium, and APEC for funding it. I was originally asked to talk about Canada, but the organizers wisely decided that you are more interested in a broader approach. So I am going to talk about the world. But I could not resist making special reference to Canada, partly because I am from Canada, and partly because Canada is a rather interesting case study. It scores very high on some of the leading indicators of income and socio-economic welfare, in particular relative to the United States, which is right next door. My view is consistent with Orszag's this morning that extreme income inequality is not necessarily to promote high growth and in fact, the reverse is more likely to be true. I will also refer to growing insecurity in income and I agree with Raymond Torres that this is an important topic that has been yet under addressed. Now the… I wonder if we got the… I think we got the wrong one, the one that says, Korea. The principal measure of socio-economic welfare internationally is the United Nations' human development index (HDI). And the HDI is the comparative measure of poverty, literacy, education, life expectancy, childbirth, and other factors for countries worldwide. It is a standard means of measuring well-being, particularly child welfare. It was developed by a Pakistani economist, Macouva Olhac, and it has been used since 1993 by the United State s… by the UNDP and its annual report. The components of HDI are longevity, as measured by life expectancy at birth, knowledge as measured by the adult literacy rate, and also the combined enrollment rate at primary, secondary, and tertiary educational levels. And thirdly, the standard of living is measured by gross domestic product per capita purchasing power parity. So in other words, it adds to non-conventional measures to the standard of living beyond GDP per capita. The number one country on the HDI for last year and the year before last is Norway, which has ranked number one for several years. Canada has ranked very high and still does rank very high. You can see that back in 1993, Japan was number one. The new report for 2005 show that the HDI for countries around the world is mostly improving with two major exceptions; post Soviet states and Sub-Saharan Africa, both of which show steady decline. And the reason is that there is worsening education, worsening economies, worsening mortality rates in the first group. And HIV/AIDS is the principal cause of decline in the second group in Sub-Saharan Africa. An HDI below 0.5 is considered to represent low development. And 30 of the 32 countries in that category are located in Africa. The bottom ten countries are all in Africa. The highest scoring Sub-Saharan country of Africa is ranked 120th, which is well above other countries in the region. The highest HDI of 0.8 is in northern Europe, Scandinavian countries primarily, Australia, Canada, the United States, and Japan. Countries that exhibit high human development amidst countries with lower HDI include South Korea, which is 28th, a very respectable ranking, Costa Rica, Cuba, and Panama. Now this is a list of the top 30 and you can see that on that list, I put double asterisks beside the countries that are in Asia, not APEC, but Asia. We have got Japan, we have got Hong Kong, we have got Singapore, and we have got Korea in the top 30. Norway at the top, Canada now number 5, down one place from number 4 last year. The top HDIs in Asia are Japan and Hong Kong. For some reason the UN considers Israel to be in Asia, I do not understand that. The bottom three are Bangladesh, East Timor, and Yemen. Not ranked by UNDP are Afghanistan, North Korea, and Iraq. But we do have information on Chinese Taipei. Chinese Taipei, if included among the UN HDI figures, would rank 25th. It would rank just behind Greece and just in front of Singapore. Now what about Canada? Let me say a few words about Canada. Canada is relatively unique in four ways. It is culturally close to the United States, and yet its preferences for income equality and security are closer to Europe's than to the United States. We lie somewhere between. Canada assigns government and economic growth that is closer to Europe's or Asia's than does the U.S.

Its exports, Canada's exports, I think, are a point that is too little emphasized. I have not seen many people talk about this. Our exports are much more resource-intense than those of the United States, Europe or Asia. And I think that this certainly does imply more income variance over time and space. Over space, I mean geographically within Canada where countries or regions of the countries like the Far East New Finland and the Maritimes, which were impoverished until recently, are now oil rich. But indirectly, I think looking back at Canadian history is one of the things that has prompted us to embed more re-distributive policies that are more diversified than our American neighbors. The fourth point is that we joined in free trade with the United States in 1989, five years later NAFTA was instituted where Mexico was brought in. Our HDI has remained high. So superficially, it looks as if so-called globalization has not hurt Canada, at least in terms of a broader measure like HDI. There are two leading researchers in Canada on well-being—Lars Osberg at Dalhousie University in Nova Scotia and Andrew Sharp who has an institute for productivity research in Ottawa. And they have developed what I think is a very interesting index of worker well being, the ILMW. It has four components: average return from work, accumulated human capital, which is an index for future returns from work, inequality and current returns from work, and insecurity about expected returns from work. They have calculated this for 16 OECD countries, for every year between 1980 and 2001. On that list of sixteen rich countries, Norway ranks first, Canada ranks second, the U.S. ranks second to last at 15th, and New Zealand last at 16th. And in terms of changes just measured by the arithmetic changes in the index values over that 21-year period, Finland has risen the most, Canada has risen the fourth most, the U.S. has fallen a great deal, in 12th place, and New Zealand has fallen the most. Now I will just tell you the reason for that right now. New Zealand's per capita income has risen much more slowly than the others. It is not so much to do with insecurity, inequality, or certainly human capital. Now you may not want to ponder these data but we can come back to them if necessary and they are printed in the handout. This is what the indices look like with the ranks in the third column and the components of the indices including labor market equity, labor market security, the ranks in 1980 compared with the ranks in 2001, and the rank of the amount of change since then. Notably, from these statistics the U.S. has a huge gap between on the one hand the first two components of the index, which are income and human capital where it ranks second on income and first on human capital and equality and security where it ranks last at 16/16. Canada's gap is 4th on income, 2nd on human capital, and somewhere halfway down 9th and 8th on equality and security. Sweden is quite low on income and relatively high on human capital, but is very high on equality and security. Japan seems to be balanced. So in short, Canada lies between the polar schizophrenias of the United States and Sweden and is closer to the balance of Japan. Let me talk for a few minutes about the United States. The United States is well known as an outlier among rich countries. Its per capita income and human capital ranks at the top but its income inequality and security are at the bottom. Now, many people believe that Americans are willing to tolerate more inequality and more insecurity in return for higher productivity growth and a promise for upward mobility, the so-called American Dream. And certainly, the United States allocates both labor and capital income efficiently. The labor markets are relatively efficient and the capital markets are very efficient in allocating returns according to productivity, except for perhaps CEO incomes. I believe that there is a malfunctioning of corporate governance in the United States that has caused hugely skewed CEO incomes and perhaps other CEO incomes. But aside from that, the United States allocates incomes according to productivity or merit. And the United States has taken by the same token, the full advantage of globalization. However, Norway, Sweden, Finland, and the Netherlands, but remarkably not Denmark, have managed to realize high productivity growth without sacrificing equality and security. Now, these countries also have low unemployment. On the other hand, Germany, France, and Belgium, which also boast high equality and security, have very high unemployment rates. Now what is the reason for that? Well, standard economic theory tells us the reason for Germany, France, and Belgium: high interference in the labor market that causes unemployment. However, it does not superficially and easily explain the first group—Norway, Sweden, Finland, and the Netherlands, which seem to have it both ways. Now, although the U.S. seems to tolerate more inequality and insecurity because of a promise, the American Dream of upward mobility, the evidence in recent years, certainly the last ten years, is that Canada, Australia, and several European countries now offer more intergenerational mobility than the United States. Yet Americans still seem to believe all the survey evidence that the Americans still believe in their dream despite the reality that they have slipped in the rankings. Other evidence from the same Lars Osberg finds that although Americans have less concern for reducing inequalities between lower incomes than do other countries, they have similar preferences for overall equality and they are as concerned as other nationalities to level down the very top earners. Perhaps they sense that meritocracy breaks down at the CEO/superstar level. U.S. CEO salaries are now 300 times average wages. They are far higher than any other country although Canada is getting close. Now, recent research for the United States by Bob Gordon and Ian Dew Becker shows that labor share in GDP relative to capitals has actually risen or rose up until 2002, the end of their study. Nevertheless, the inequality within labor income has increased. In other words, it is not a rising share over the long stretch of returns to capital that is causing inequality, but it is inequality within labor income. And that is consistent with the ILMW for the United States, but it is not consistent with other countries' ILMW scores. From 1980 to 2001, the labor market component of the index for the United States fell dramatically. It was already low and it fell by a great deal, 3/4 of what it was before. For Canada it fell less. It fell for most of the 16 OECD countries that are ranked, notably in the U.K., which has the second highest fall after the U.S. However, in 6 countries, the equality index actually rose; Belgium, Finland, Germany, where it rose markedly; Japan and Norway and Switzerland, where it rose slightly. The labor market security component rose, not fell, in all but three of the 16 ranked OECD countries. But all three countries that fell started from high levels of security, and in 2001, all three of those countries had security indices still higher than the United States. Australia's is the lowest of those three, Denmark's is relatively low contrary to popular belief, which lumps Denmark in with the other Scandinavian countries. But Sweden's index of security, of labor market security, is dramatically high. The conventional explanation as Raymond Torres has emphasized is increased import competition and particularly skill-based technical change, but in the United States, the United Kingdom, and Canada in particular, the Star System Executive Compensation is important. That I think has something to do with the Corporate Governance System, a corporate system which is made up of stakeholders rather than channeling rewards strictly to shareholders. There is a well-known argument by Richard Floridan, from a best selling book a few years ago that there is a class system influx, with knowledge workers at the top and unskilled workers at the bottom. It also states that those who are more creative and those who are paid for skills that are protected by entry barriers and unions benefit at the expense of semi-skilled and unskilled workers. Now, in conclusion, first technology and trade seem to have increased disparities in returns to labor over the last decade or two. However, outcomes differed among countries between countries depending on apparently relative preferences for equality versus meritocracy. Thirdly, equality derives from regulated labor markets and/or re-distributive taxes and transfers. Perhaps France or Germany relies more on the former regulated labor markets and Scandinavia more on the latter—that is, highly progressive taxes and generous transfers. So Scandinavia's higher productivity growth seems to be bought without the cost of higher unemployment. And I want to end with a question that perhaps we can come to in the discussion that I have not addressed here. What explains the difference between China and Korea? China's income disparities are wide and apparently growing. In Korea, they are substantially less wide and probably, I will not venture whether they are narrowing or not, but Korea seems to have developed in a different way from China. There are other disparities in APEC that perhaps we ought to talk about. China seems to be among the major economies, the outlier. Income disparity within China is considerably higher than even in India. Thank you very much.

Hsiao-hung Nancy Chen

(APEC SSN CBN and National Chengchi University, Chinese Taipei)

Good morning everyone. I would like to thank you and also the organizing committee for inviting me to this big event. Since I have prepared more than 50 slides, it is impossible to view all of them together, so I am going to jump or skip some of the slides. I am going to deal with the topic of social safety nets and socio-economic disparity with focus on what we call globalization. And this is the outline for the presentation. First of all, I would like to deal with a little bit on the data related particularly to APEC economies in terms of a perspective on growing income disparity. Since we are talking about income disparity, perhaps we should also have to deal with a little bit on the characteristics of the poor in this region, not to mention some of the attributes of socio-economic disparity and globalization's impact on the issue. That will be the third part, which will be followed by what some people call the 'new challenges' or 'new social risk' for social safety nets, especially confronted by LDCs. The last will consist of a few concluding remarks in terms of what should be done in the future. These are the situations of some APEC economies and among the 6 economies you can see that Hong Kong, China, and Singapore in terms of the income differentials are bigger than the rest. And Japan perhaps can be considered the most equalized country if taking the GINI-coefficient into consideration. This is another way of showing you the relationship between the GINI-coefficient versus the GDP per capita of some of the APEC economies. And perhaps we can say that the higher the income a country enjoys, the less inequality it seems to have in the APEC region. And the second important factor in dealing with the inequality issue is that in recent years we found that the accumulation of wealth has been extraordinarily concentrated at the very top. And to prove this, one of the UNDP reports reviews the fact that the fortune of the world's 358 millionaires exceeds the combined income of 45 percent of the world population. Another study done by Fox and Michelle shows that the ratio between the incomes of the top CEOs of American corporations is much, much higher than those of the rest of the average production workers combined. In addition, one study just done by Morlinch which was reviewed last week talked about millionaires—the growing millionaires in the world, which is the figure you can see from 2005. Compared to last year, the number has increased. And the main point here that I would like to emphasize is that the growth rate is the highest, as you can see, in the Asia-Pacific region. Given what has been presented n the tables, perhaps we can roughly conclude that those inspired by the vision of one global economy have seem to have ignored the issue of income and wealth inequality. So what is it like for the poor in reality? Some of the characteristics we can pick up, especially in APEC regions, are the following: First, we tend to find the less-educated, the single-headed families (especially those headed by females), households with more children, families with less employed members, and the high percentage of the working poor to be some of the groups that are most likely to be hit by poverty. And here, I would like to show you the figures, but I am sorry to say that we are short of time… We will come back if we have time. For instance, in terms of a single-headed family, especially the female-headed family, Chinese Taipei's example shows that female-headed families have an 8 times-higher chance to become poor than male-headed families. And in the case of Korea, single mothers and older women that live alone represent the highest risk groups among poor women. You can also see from the figure here that one fifth of the poor came from 21 percent of the female-headed households in Korea, especially in the cases of elderly women that compose 56.1 percent of the group, which are living below the minimum living standards. Apparently, the gender issue is very important when talking about inequality in this region and here are some of the countries of comparison: You can see normally across the board that women gain less in terms of GDP per capita compared to men. And those families with more children tend to be poor and again, using Chinese Taipei as an example, you can see that 70 percent of the poor families have 2 to 3 children, and 15 of the OECD countries that are dealing with so-called child poverty have come more or less to the same conclusion. In addition, less employed families have a higher tendency to become poor compared to the families who have more people in the labor market. When dealing with inequality issues, one very important area that many scholars are working on nowadays is the working poor. And these are the statistics showed by the ILO's report. As you can see, Asia and East Asia are far better compared to the rest. It is also apparent on the second column that 87.5 percent of the population lives with less than 2 dollars per day in South Asia compared to only 30 percent in West Asia and 49 percent in East Asia. So given the trend of globalization, what are some of the attributes of socio-economic disparities? For those of you who are familiar with the literature on globalization, you might agree on saying that these are the four major characteristics of globalization, all of which have impact on social or economic disparity. The first one of course, is the communication revolution dealing with or relating to the invention of the internet. The second is a knowledge-based economy that, together with the internet, makes global finance and the flow of currency and capital possible. The third would be the economic hegemony of the U.S. after the cold war and finally, the changing status of women worldwide. Specifically on the economic perspective of globalization, here are some catchwords: free trade, deregulation, the growing importance of multi-national corporations, and the separation of manufacturing sites from markets. Now back to the impacts, what may some of them be? We can see from here that globalization in the name of free trade often widens the gap between the rich and the poor countries, and while the real income of the average person in developing countries has risen rapidly over the past ten years, the number of people in absolute poverty has not declined. And still on the topic of economic impact, even in the background just provided, increased pressure on the traditional skills on employment structures is clearly visible. Acceleration of technological change has marked an upward shift in the skill structure, which heightens the vulnerability of those in low-skilled jobs. And also, employers have emphasized higher standards of product quality, downsizing their organizations. They sought higher degrees of flexibility on working practices and devoted to increasing responsibility on their work team while being confronted by increased economic internationalization. Even in the advanced welfare states of Europe, the view is that social expenditure such as investment is seen as a burden on a wealth-producing economy. This kind of view has gained much ground and became dominant. If run in a way that the social safety nets operate in most developing countries, the developed countries would be able to provide some kind of protection to their residents, which would cap the contradiction between the rich and poor within a controllable range. And yet, in most developing societies, no promising social security is in existence. Therefore tension among the state unions as well as the laborers can therefore be fermented quite easily. And that is why the World Bank Report recently stressed that societies everywhere will gain from poverty reduction because this is not just a moral imperative, but also because poverty will bring about negative externalities such as conflict and violence, the spread of communicable diseases, and illegal immigration pressures on the sustainable environment. I am going to skip some of the political impacts other than just mentioning that co-periphery countries have accrued in accordance with the flow of capital. More and more NGOs and NPOs have formed under globalization due to the very fact that they found the inference of their national sovereignty becoming weaker and international hegemony being seen everywhere. I will skip from here and just go into the social impacts of globalization. Now one of the things that we heard in the keynote is international migration, which appears quite prevalent in this region. Work mobility is high. Therefore, lifelong employment becomes more and more impossible. Individualism is likely to substitute national identity. Also, another issue that has been brought many times from the previous speech regarding unemployment, especially within the traditional sector, coupled with the capital flows to other countries which occurs in many emigrating populations of countries. Thus, middle and older age workers, new immigrants, and lone mothers are the most vulnerable groups; especially lone mothers with small kids, since there are lots of either part-time jobs or flexible working hours arrangements. It is very difficult for them to access the kind of training or education we have talked about and this poverty trap is passed on to their children. It is not just within one generation, as it can carry over to the next generation. And some other impacts from the social perspective are that the kind of manpower required across the board in the future will be dominated by technology. Wage differentials between the top and the bottom within the same industry are expected to increase too, the extent of which is different among sex. Women, especially the lone mother with small kids, new immigrants, indigenous people, and the elderly are the most vulnerable groups for shortages of both human capital and social capital in an ever-so-competitive and globalized world. So what are some other social risks or new challenges for developing countries in dealing with social safety nets? Here are some of the thoughts provided by scholars and practitioners, especially in the APEC region. The first one of course is the low fertility rate that we are all experiencing in this region. The second one is the phenomenon of aging population. In most developed societies, it took 70 to 100 years to have their aged population double, whereas in developing societies, especially in the East Asian countries of Chinese Taipei, Korea, and Japan, it took only 30 years, meaning that the proportion of people 65 and older is growing extremely today. Every 1 out of 4 is considered to be part of the ageing population. In the case of Chinese Taipei, it is estimated that 10 years from now, 14 to 20 percent of the population will fall into the group of 65 and above. And yet, the fertility rate in this region and Korea is the lowest only comparable to Italy in the west, which is about 1.2 on average. The third major risk that is confronted by less developed countries is the structural change of families. We are talking about divorce rates rising and the co-habitation phenomenon continuing to prevail compared to 10 years ago. And we find many single people. Increasing in the region are those who marry very late or do not marry at all, enjoy their double income, and do not have children. All these things demand government attention, demand policies. All these phenomena occurred in a setting of countries and regions that suffered from less viable financial situations. And finally, due to the democratization process that occurred in many parts of this world, party politics has created complexities when dealing with social safety nets. In other words, different parties, in competing for votes, blame social safety nets on the one hand for the budgetary deficit and on the other hand, use them to earn votes, which I unfortunately think is quite prevalent in this part of the world. I am sorry I cannot operate for figures 6 and 7. I better speed up because of the limited time. Figure 6 was just to show the birth rate versus the total percentage of those aged 65 and above in APEC economies and figure 7, was to show the time that it will take for 7 percent to become 14 percent for the age 65 and above in this region. Some of the social risks in terms of family structure changes have something to do with the so-called second stage of demographic transitions, which I already touched upon. And this is the figure to show you child poverty. The poverty trap, which I mentioned earlier can be duplicated and passed on to generations, is becoming a rising issue when dealing with the social safety nets in this region and in other places. We heard about tax reform, which of course is the integral part of social safety nets. However, the general public's opinion toward tax reform is quite reserved for the very question of "who is going to pay?" And the other thing is, people are not so trustful of government accountability when dealing with the tax reform, that of which, I do not have time to elaborate any further. And finally, as I said with regard to party politics, social safety nets always play two roles: One, skeptical, and the other one as a tool with which politicians earn their votes. So it finally comes to the concluding remarks. What will be the next? First we all know that globalization has been strengthening the bargaining procession and the political power of capital over labor. And second, I think a life course approach is worth pondering, because in the future, most countries will have to simultaneously deal with social safety net consequences of both market and families. Thirdly, the best strategy for protecting income security, aside from furnishing transitional measures to disadvantaged groups during times of hardship, are to ensure job opportunities for disadvantaged groups with the addition of increased educational investment for them in order to enhance their social mobility. And here, as I have proposed, please help me with figure 9, a strategy framework, which will bring economic development together with an adequate social safety net in both short term and long term. You can see in the center that the disadvantaged group includes female bread winners, the elderly, disabled, indigenous groups, and the low income group, for whom I think the best strategy of protecting income security as I said before is to ensure job opportunities, not to mention increasing educational investment for such disadvantaged groups to propel social mobility. So these are for promoting both social development and establishing adequate social safety nets altogether. And in the final words, I would like to propose a so-called comprehensive approach to social safety nets, which will blend together three things in one. The first of course, is social welfare, the second, labor, and the third, taxation. And I think all of these things have to be integrated together into future social safety nets in this region and maybe in other regions too. And perhaps this figure can tell you what I have in mind—that if we take the system view, you can see every country that is confronting both domestic and external environments. The external environment now is of course what everybody talks about: globalization. So there are certain influences that one country, any particular country, cannot really deal with because they are global in nature. But in terms of the domestic sphere, most countries today can certainly consider confronting, including the social, ideological, economic, and political factors, which I mentioned during the course of my presentation. And so for an effective social safety net in terms of or from a policy point of view, I think we cannot just narrow it down to a very small scope. Think about the social welfare policy. We have to take into consideration the labor policy together with the taxation policy in order to bring about both economic and social development for this region. With that I thank you for your patience. Thank you.

Discussion

Fraser Cameron ***(Moderator)***

We have an opportunity to hold an open discussion here. We have got a couple of microphones and people that will be able to hand them out. I will just try my best in keeping things going in order and making sure that no one holds the floor too much, so now we can start.

Discussant 1

Chairman Professor Chira H. is in Thailand so I will be Lead Shepherd of the human resource working group of APEC for the moment. First of all, thank you very much for inviting me to participate, since morning, I have learned so much. But this issue I would like to say, is not new. Not only in APEC, the OECD, and the UN or in the World Bank is this issue discussed, but it is discussed a great deal worldwide. Now, I would first like to point out that I am sure this conference will make a difference with an achievable outcome, especially since I cannot find a better place than APEC to discuss such a matter. I would like to remind you that the trend in the world at the moment is what we should call the "socio-economic disparity innovation approach." For example, let me enlighten you on what we discussed at the last meeting in Ho Chi Minh. The theme of human resource development working groups is called HID and innovation. So I think the innovation of a more concrete approach to socio-economic disparity would be something that we should look forward to. I believe that we should try to get things done rather than just having another seminar, and saying that, I would like to make two or three observations. First, I think indicators are important. I am glad that the GINI-coefficient was not the only one mentioned, as we just had a friend from Canada talking about the Human Development Index. I would like to say that there is another one that is becoming very convincing: the Happiness Index, because the world is looking for sustainability as well, not just income levels. So I think there are some indicators that we should look into. And secondly, in my opinion, I think we should break down a solution into three areas: one on human resources or human capital areas. I would say that is something I would like to share in a moment; secondly, tax and economic reforms, which is vital; and thirdly, global governance, which we did not talk about yet. I think APEC calls it anti-corruption. You know we must take care of anti-corruption also. And in my opinion about human resources and about human capital index, I would like to say on behalf of my group that the working group has done many things in fact, to quote from a charity group from CBN. We break down human resource groups into three networks as many of you know: one on education, one on capacity building, and one on social and labor protection. Let me cite you a few examples that may be incorporated into the conclusion. For example, we now agree that mathematics and language will be a way to increase human capital investment among the disadvantaged groups. In fact, among the APEC economies, Singapore is clearly a leader in this field. In Japan and Thailand, we have also invested in mathematical teachers. We also push for capacity building among agricultural groups in APEC. For example, eventually the WTO will open up trade in agriculture, but farmers do not have management skills, so we also need to upgrade management capability. And finally, APEC also has an approach on exports among women and exports among SME groups, which definitely has the possibility to promote development among vulnerable groups. I think Mr. S. wanted to say that we should not just look for new ideas, but look for past ideas that APEC technical committees, where 11 of which actually have tried, but only one of them here has done a lot of work in integrating trade and investment liberalization with social and economic impacts. So I would like to say that for many of you who have not looked at the APEC work, do not invent new ideas only. Look for old ideas, and try to turn that idea into the innovative solution. Thank you.

Fraser Cameron *(Moderator)*

Thank you for the speech. Does anyone from the panels want to comment on that? We should probably get a few comments from the floor out first, so, please feel free.

Discussant 2

Thank you. My name is Sacoo, representative of the Ministry of Finance of Indonesia.

Good morning to the moderators, presenters, and all the participants. I have two questions here, after listening to the presentations by Mr. Torres and Professor James. In my opinion, there appears to be a slightly different premise by Mr. Torres that trade has little impact on economic disparity, but on the other hand, Professor James says that trade seems to have increased disparity. How can you extend this premise to a global scale? And the second one still regarding to the first question is about free trade and liberalization. A country should open widely to free trade and liberalization for commodities, but I think there are two different cases. When an agriculture-dependent country wants to export its products to a developed country, there are tight restrictions. For example, higher taxes and so on. I think lightening this policy will be a real policy done to alleviate or reduce the social economic disparity among countries. That will be all for my comment, thank you very much.

Fraser Cameron *(Moderator)*

Okay we got the question of what does the data really say about the impact of trade on inequality because we had slightly different presentations. So Raymond, do you want to start?

Raymond Torres

Yes, in terms of the impact, the studies look at the direct impact of trade or foreign investment on observing inequalities in wages, because we have a clearer trend on equal wages. Those studies are direct (I insist on direct, because that's what studies are like), just like other studies. They conclude that trade and investment do have an impact based on certain theoretical and empirical evidence, around 5 to 15 percent maximum observed in equal earnings. So I don't know whether it's a lot or not, I mean it certainly is not all, I would say. It's statistically significant, but it's 5 to 15 percent, so it cannot be said that trade is the main direct explanation of growing inequalities. Studies also mention, and I think it was referred to this morning, and also by Professor Dean, that new technologies are probably a more important explanation behind growing inequalities. The reality is that there may be a link between trade and technology, but I think that link is very difficult to establish in empirical studies, making the total effect of trade we have taken into account to derive a relationship with technology may be higher. However, we don't know. We have to be very careful here, because we have to see what explains what and how much it is that trade takes up in proportion when increasing inequality. Now, there was another question on global governance. I think this is a very important issue that we talked about, solutions in terms of domestic policies. But there are also dimensions in terms of a global response to these issues and I think corruption is one. The other important issue is the risk of tax competition, because if we all agree, I mean, if all countries want for example to compensate losers and help people adjust and so on, you have to have some taxes paid, not to mention education. Education and training are very expensive. If at the same time there is pressure to reduce taxes for high income earners or corporations because there is competition to establish your company or high income people in different countries, it becomes more difficult to finance these programs. There may be interest in holding an international discussion on how to coordinate this.

Fraser Cameron *(Moderator)*

Okay Nancy, do you want to say anything more to that? Okay. All right. Can I just chat with the organizers, we're a little bit over time now, but we got a little bit more time don't we? Okay, any other comments from the floor at this point? Okay, we'll just give last opportunities from the panel to be able to make some comments on the discussions. So James?

James W. Dean

I'd like to pursue the question I raised very quickly at the end and perhaps ask Professor Chen, I noticed in your table 3 that the Gini-coefficient bears out what I suggested, that the most mal-distributed income in APEC is in China, with the exception of Papua New Guinea and Fuji. Now, is that a policy choice of benign neglect or is it that China has grown more rapidly than anybody else for a long period of time? Or that China is at an earlier stage on the Kuznets curve? China has been doing this now for 25–30 years. Is it a combination of high growth and early stages? Do you have any comments on that compared to a country like Korea for example, which has also had a very respectable growth Professor Chen?

Hsiao-hung Nancy Chen

Well, actually, the issue of inequality is very difficult to calculate, so maybe I can just cite Mr. Wonzabao's (溫家寶) quotations. He said one time that China is a huge country, so when we talk about problems, even if it's small, if you consider the population, it becomes a huge problem. But if you divide the wealth in the country because of the huge population it becomes very small. I don't know whether you get the underlying message. When talking about Chinese inequality we really have to be careful in terms of the rural versus the urban and in terms of the different periods you talk about like state-owned enterprises before the reform and after the reform, not to mention the rising private sector of private enterprises. And also, when you talk about income disparity,h there is a great amount if hidden income; it's not just salary or wage differences, but a lot of what they call grey income for different professions that are not integrated with the national accounts. So the number reviewed here is mainly based on maybe the urban residence that they have the statistics to lay their hands on. But you know, talking about rural areas, different professions, different industries, the state of the group versus the private, the story or the picture, will be quite different. So of course, going back to your question—whether or not this is because of their very high speed of economic growth or whether if it's because they can tolerate such a situation—last session, some gentleman, I think the keynote speaker mentioned or speculated that the so-called government accountability could be another issue we have looked into. Not just the figure here but some of the structural factors which are hard to really analyze if we don't have enough data to work on.

Just a quick reaction to that, I mean India is also a very large country with limited labor mobility and yet their Gini-coefficient is 0.33 compared to 0.45 for China, and so my hypothesis is that India hasn't grown fast enough nor long enough.

Well, they have different systems, the caste system in India and in China you have the dual system—the rural versus urban and even migration between the two has just lately loosened up. They were not even allowed to move to the cities for a long time. So I think perhaps our Chinese participants can react to that much better, because they know the story more.

Fraser Cameron *(Moderator)*

Do you want to? Okay, all right.

Discussant 3

Thank you for this opportunity. My name is Anny from Indonesia. I liked the presentation from Professor Nancy Chen. It's a good presentation for all of us. Now, related to socio-economic disparity, we should focus on at least 3 aspects: the first is to make growth work for the people, for the poor. Second, make services work for the poor, and the third is to make social protections work. For the first, make growth work for the people, we have two options. The first is to get growth to the poor. Related to the Indonesian experience, helping enhanced productivity in agriculture and generating non-farm employment in most of our country Indonesia, poverty continues to be predominantly rural. And the land constraints faced in many of our dense Indonesian population makes this all the more imperative. And getting the poor to grow is related to connecting the rural poor to growth markets, including urban areas. And it is also important to get the non-agriculture based poor into more productive jobs. For example, increased investment in infrastructure to connect the poor to markets such as roads and telecommunications sectors in order to lower transaction costs and increase productivity has created better jobs for the poor in the non-agricultural sectors. And related with making services work for the poor, our private programs are related to spending on what matters to the poor. Rapid growth in the regions provides governments with increasing resources to address difficult issues such as regional disparities in excluded marginalized groups. Therefore, we are trying to make spending more for the poor and focus more on investing in basic infrastructure such as roads, water, and irrigation. And in the social sector, namely in health and education, we plan to improve the regulatory framework to allow better services delivery to the poor. In some instances, quality is marginal at best. And competition in service delivery between the public and private sectors when it does occur is not a bad thing in this regard. In other instances, especially in remote areas, the public sector facilities are just not available. One option is contracting out to the private sectors or NGOs to rebuild for services on behalf of the government, especially in remote areas. And also in making services work, we can use subsidies and targeted transfers especially to reach the poorest and most marginalized, including those in remote areas. A key challenge to making services reach the poor is considering how to best target the poor. And lastly, the poor and the less fortunate are particularly vulnerable to shocks of all sorts. Whether it be natural disasters, price changes, localized economic downturns, or household crises. In Indonesia, with almost 20 percent of the population living in poverty or living above our national poverty line but below 2dollars per day, this is particularly an important issue. Marginalized groups such as Migrant or Baslahm dwellers or disabled people are often the least able to cope with and recover from shocks. Our government needs to consider taking measures to protect the poor either, through public action or through the facilitation of private actions. A challenge in addition to that of reducing poverty, can also be seen in Indonesia, which is currently in the middle of the major orientation of its social protection and transfer programs. We have what we call the world's largest unconditional transfer program, which is for some 18 million of our poorest households. And in the 26 billion Rupiah we allocate 15 billion Rupiah to this transfer program. Thank you.

Fraser Cameron *(Moderator)*

Okay, thank you. I think that just leaves us to thank the speakers very much for the contribution and for carrying through with their thoughts from the questions that have been raised from the floor this afternoon. Thank you very much.

Announcement

We will now have luncheon from now to 1:30. The luncheon will be hosted by the deputy minister of trade, Kim, Jung Keun, Ministry of Foreign Affairs and Trade of Korea. The location will be Ruby Hall on the first floor. Please enjoy your lunch.

Session II. Case Studies in Socio-Economic Disparity of APEC Economies

(Backgrounds, Major Factors and Policy Experiences)

Part I

Announcement

Session 2 is titled "Case studies in Socio-Economic Disparity of APEC Economies." Backgrounds, major factors and policy experiences will be moderated Dr. Peter R. Orszag. The four presentations will be made by Dr. Cheonsik Woo, Mr. Hernán Gutierrez, Ms. Zhang Yali, and Mr. Nobutaka Tanimoto.

Peter R. Orszag *(Moderator)*

Thank you and welcome back from lunch. What we are going to have here are four presentations. I think we'll just go around the table in this direction. And each of the presentations will be roughly fifteen minutes and then we will have time for discussion. So let us now get started from a Korean colleague.

Cheonsik Woo *(Senior Fellow, KDI, The Republic of Korea)*

Thank you, Chairman. I am very glad and happy to be with you here for this important meeting. My topic is this: "Economic Crisis and Development of Disparity in Korea." Because I have little time, I will go pretty fast, focusing on things I want to emphasize. It will go in this way: first, about the Korean economy today and challenges we are facing, secondly, polarization, thirdly, sources and causes of this problem, and fourthly and fifthly, policy issues. But I guess we have another session for 'policy issues,' so I may skip the last two sections.

As most of us are fully aware now, Korea has recovered impressively from the financial crisis of 1997. But Korea is not happy because of some problems it is facing. Among the many, number one is losing the growth momentum. On top of it, we are now having a mounting disparity issue. This has become the top national agenda these days. I am just showing you these snapshots of what problems we have. This is the performance after the financial crisis in respect of growth. As you can see in this graph, the growth of the left-hand side on this page has been wild, going up and down continually. One thing more important is that the trend in growth is declining. That is, we have the trend of decline in the long-term growth rate, as you can see in the right-hand side of graph. But on top of it, we have a mounting, rising disparity problem. The first example focusing on this problem is the Gini Coefficient. The Gini Coefficient has risen drastically right after the financial crisis. Since 2000, we have a sign of decline in the Gini Coefficient. But it is not showing the whole picture. Therefore, this is the point that I am going to discuss with you.

Korea now has some surplus structure of polarization, since the financial crisis. Industry forms, jobs, income, and ultimately, underlying innovative capacity, could causally go to either way and would have the surplus structure now embedded already. And things that many graphs are showing are as follows; firstly, we see the manufacturing sector and services sector, where there is a rising gap in performance between the two, not to mention leading heavy chemical industries versus light manufacturing and others. If you take a look at this division in job and income, as you can see, Korea actually faces problems in both quantity and quality. Firstly, as for the quantity, the employment rate remains pretty low; compared to most of the advanced countries, in Korea, about 63 percent while in the advanced countries about 75 percent. The employment rate has remained flat over the past 10 years on near the 64 percent range. And more than that, we have some serious problems on the quality issue. You have the U-shaped job creation curve. You have less and less of middle level income jobs and more and more of both good jobs and fairly poor jobs, as you can see in this diagram. And if you look at this U-shaped job creation curve, three facts can be pointed out. The first fact is the risie of wage gap between leading sectors and backward sectors; for instance, small and medium size enterprises (SMEs) versus large enterprises. As you can see in the first graph, this SME sector has gained in employment quite steadily, but the income gap, which reflects the productivity gap, has increased as well. Because more and more people are employed in the SME sector, receiving lower wage, this results in worsening income distribution. The Second fact is the rapid increase in non-regular and low-paid job workers. As you can see in the second graph, this non-regular job sector has increased by about a million a year over the past 3 years. And the third fact is that self-employers have increased excessively after the financial crisis. And also over the past 3 or 4 years, we have sharp decline of income among self-employers, which constitutes about one third of the total labor force in Korea. Therefore, we now see a new working pool group emerging in Korea, which has been unprecedented over the past 2 or 3 decades, constituting the SME workers, non-regular workers, and self-employers.

The result is the dwindling middle class and also the dangerous phenomenon of rising social tension. As you can see in the first graph, the share of middle class has declined from 68 percent before the financial crisis to 62 percent today. If you measure the social tension level in terms of the so-called polarization index, the polarization index is increasing far faster than advanced countries. I will skip some parts here. The reason why we have an increase in the income disparity is pretty much due to rapid polarization in this industrial and business sector. This has developed based on three distinctive aspects. The first is manufacturing versus services. This polarization occurred since the 1990s. The second is the division within industries, namely intra-industry division between the leading sectors and the traditional sectors. And the third is that, regardless of industries or sectors, we have all these leading forms and backward forms, diverging performances. So this is, at the form level, disparity increasing.

And this material shows some more details and about what happens in manufacturing sectors and SME sectors, but I will skip this part. The point that I would like to emphasize is the service sector problem. All these job quality and income disparity problems largely reflect Korea's underdeveloped service sector. Considering the graph, the service sector in Korea has expanded steadily in quantity. But in terms of real GDP, it has remained quite flat, at about 50 percent. This indicates that the service sector in Korea has lagged pretty much in terms of productivity. As shown in the graph, this productivity gap of the service sector against manufacturing has widened. So the increasing employment of the service sector combined with a rising productivity gap has resulted in a great income disparity. This has become a trend in structure. If you analyze the service sector in detail, most of the employment gain in the service sector has occurred in the traditional sectors, such as retail, wholesale, etc. But the high productivity sectors have not increased employment.

And more costs of the polarization are in the industries of farms, households, and labor. I will point out three factors. The first is the universal factor—the global mega-trend, such as globalization, the rise of China, and the technology. In terms of domestic factors we have two: one is the backward industrial employment structure, as we just went over weak SME sectors and also feeble service sectors, especially with overpopulated self-employers. The third is the policy responses. Although it is still controversial, the Korean government has not responded properly enough right after the financial crisis and too much business promotional incentives have been there. And the China factor is universal, but at the same time it has a special meaning because China is a vicinity to Korea and the share of business with China is substantial to Korea. And this shows that some vanguard companies are winning due to the rise of China, but feeble firms are losing fast.

And the self-employed sector is also a fundamental problem. As I mentioned, this constitutes about one third of the total labor force. Most of these are small, cottage-type businesses. On top of that, we have a fast aging problem going on as well. These are challenges from a policy response perspective. And policies and some factors are said that the second part is imprudent and hard to promote after the financial crisis and the lack of guidance in this cottage-like businesses. Consumer loan is also a problem. Although Korea had a good economic boom right before the coming of this government, it has been a great burden to the incumbent government.

As for the underdeveloped social safety net and training system, I can also point out as sources of problems. Korea has introduced some good social safety net systems only lately after the financial crisis.

As for the policy agenda prospect, it is still controversial in Korea, what the government should do, and whether there is any substantial part regarding this argument. My view is that the disparity is likely to persist or even to amplify for the time being. The first is the global changes; China is advancing and globalization is deemed to amplify. And also, the structural problems Korea has, a structure in nature, reflect some aspects of market and government failures that will not go away ultimately over time. Therefore, we need proactive and innovated policy responses from a long-term and dynamic perspective. The basic perspective in strategy is what we call co-development between the leading sectors and the backward sectors alike, by encouraging leading groups to make global players such as Samsung and Hyundai strengthen the growth locomotives now and for the near future. At the same time, we need to empower feeble and vulnerable players to join the leading group for the future as well. It will lay down a foundation for the long-term and a sustainable growth with social cohesion. This is the graphical illustration with four pillars of strategic responses, wanting to secure the maximum performance of forerunners while trying to pull out the potential of others for self-lifting. The forging environment in the first session may be pretty much of a burden and yet, also an opportunity. We can facilitate overdue restructuring over the Korean economy. We may have a chance to clear up inherited structure or burdens and also we may sharpen the policy on the SMEs and service sectors. These days, Korea is fully aware of the gravity of such problems, and various new policy initiatives have been set out lately. And we have some favorable market factors; Human resource conditions are pretty much one of the most favorable. We have about three quarters of total labor forces with high school education and higher. Also, we have a promising change in the service sector, but we are facing adversities as well. Korea has to overcome such obstacles of pension and medication polcies, etc. I will stop here.

And on the last page, as for the remaining challenges, we need new leadership, a new approach, government reform, and an organizational revamping, so that we can resolve the problems we are challenged by with the new leadership and its foresight. And for the private sectors, capacity is more important, so we need a new social capital to build our energy and also to get over these problems.

Hernan Gutierrez B.
(Minister Counselor For Economic & Commercial Affairs
Economic & Commercial Department of Embassy of Chile)

Hello and good evening. For my presentation, what I would like to do is basically to take an overview of what has been the policies applied to Chile in the 1990s, and to characterize different elements that constitutes to the drawing of blueprints in effort, to analyze achievements throughout this decade, and to analyze these achievements to pinpoint new problems that have risen: what we call a 'slowdown' of the impact of some socio-economic policies implemented in Chile, which is interesting to study and consider because it points toward harmful facts, some of which, were in the presentation of my Korean colleague, and also harmful facts that inhibit the impact of socio-economic policies. I would also like to try to conclude with some ideas about where those obstacles lie and what approaches are needed to overcome them.

What is interesting about the case of Chile is that in Chile, we an apprentice within 15 years of experience. What we call pro-growth strategy aims at assuring the growth of the economy with equity. This growth with equity would have two basic tracks or components. The first one is that different policies aim at achieving high growth in the economy, but on the other hand some policies aim equity. In relation to the pro-growth strategy, main pillars, I would like to mention especially five pillars, are as follows: the first, goes beyond the discussion about the effects of trade. The basic assumption in Chile is that it is good to open economy to world trade. And we have persistently pursued that objective during the last 15 years, through unilaterally opening up the economy but also very dynamically through free trade agreements. The second pillar, which I will mention the importance ahead by the end of the 90s' Asian crisis, is the application of conservative fiscal policies. We will see that the conservative fiscal policy can be a powerful contribution to effective social policies. Basically, the commandment to an upheaval of permanent surplus during the decade around 1.3 percent of the GDP on average was achieved. And also, retiring government debt as an insurance against future financial shocks reduced public debt from 43 percent in the 1990s to 13.7 percent in the year 2000, and an increase in government savings of 4.5 percent of its GDP on average came about during the same decade. The third pillar is not only expanding and deepening the capital market through the gradual diversification of financial instruments, but is also allowing the increment of space for investment in privatized expansion funds and other financial institutions. Of course, the fourth basic pillar includes much labor reform undertaken in the beginning of the 1990s, and as part, this conservative fiscal approach contains a reform of taxes that was very important in the beginning of the 90s and to the following years. And with the support of the political spectrum, which went beyond coalition in government, went all across the border to the evaluated taxes, cooperative taxes, and so on, aiming at reducing the tax evasion.

The second track is equity. And the equity especially during the first half of this period was pursued through aggressive social redistribution policies, which we will take a look at later on, and also on the other hand, the implementation of counter-cyclical social expenditure policies. As I say, the Asian crisis of 1998 is a very illustrating case and point since developing countries will often hear and see that their increase of social programs during the good times will not continue in the hard times when the economies are in depression or in recession, in which the first programs cut off are social programs. And they are devastating in terms of effecting poverty. Here you can see that while in 1998, 1999, and 2000, the crisis affected the annual growth rate of Chilean GDP dramatically. The social expenditure as percentage of total government expenditure remained very high, and the growth rate of social expenditure remained very high, which means that poverty is to a great extent related to environmental factors that affect the socio-economy and cultural milieu where the population of poverty live but are also enhanced by the impact of external economic shocks as our cases in the Asian crisis. Here you can see that during this whole period the rates of growth of different social expenditure were capped on and overall, we achieved very high accumulation in the growth rate.

Now, what are the results and what are the challenges? The result is that we did not achieve high economic growth at 6.1 point on average during the whole period. Before 1998 we reached around 8 percent of average of economic growth, which also translated into a significant increase in average productivity to 4.4 percent. This in the first easy face translated itself into an increase in real wages, which averaged 3.3 percent during the whole decade, and also to an increase that was a part of instruments that were implemented by the Democratic government in 1990, the increase of the real minimum wage by 17 percent during the first 2 years of this government and higher disposable income. But also, this is the other where efforts were concentrated on the traditional social programs—the expansion of support for low income families, through an increase in family allowances; through the search in subsidies for disadvantaged families, disabilities, and unemployed; and the improvement of the minimum pensions. The other side of the coin especially during this first year was the application of an increase of the expenditure aimed at social investment. One of the pillars was upgraded education, which consisted of different stages. At the first stage, the effort was concentrated on 10 percent of the primary schools with the poorest learning outcomes. What is interesting to see again is that the first face result of this was quite good. Studies demonstrate that there was a 12 percent increase in reading and math scores in these schools compared to the 9 percent average increase in the rest of schools. At the second stage, there was more systemic intervention at a primary and secondary school level oriented toward low income families, which were all encompassing programs from teaching materials to providing funds for teachers who are generated over this project, not to mention libraries and the internet networking of education facilities. And the third stage was the extent of school days which means 1200 hours a year in companion with the huge wage increase for teachers, which, in the whole period we are analyzing, meant that real salaries doubled. Overall, the social expenditures in education showed an increase by 300 percent. Another area, of course, is the public health sector, and that was investment to public hospitals' primary care units which increased from 10 million a year to 100 million a year throughout the decade. And the sharp increase in primary health care subsidies was ministered. The third factor or the third characteristic of these policies for public health was an increase also in salaries and payment to hospital personnel, which had deteriorated very sharply during the previous decade. As for housing, there was a 160 percent increase throughout the decade and emphasis on the lower income quintile in the renewal programs of rural communities and urban areas. Overall, we can say that the problem was successful and Chile rated very high in terms of effectiveness in its policies as you can see in this figure.

Here what I am telling you is that better income distribution was achieved during the first half of the decade, but then we entered into a low phase from 1998 and onwards. Now, however, if you take into account the cash transfer and a transfer to the lowest quintile population, the figures look much better. I will skip this one. What it says basically it that it is easy to tackle the problem of poverty but it is much more difficult to tackle the problem of indigence and extreme poverty. And we will try to give some hints about on this. External studies, especially the World Bank studies, found that by 1996, up to 20 monetary income differentials between the 20 percent poor sector of the population and the 20 percent rich sector of the population was reduced to 11, which reflects the fact that social expenditure policies can have very important redistributed effects. Now other studies in Chile in particular, have revealed and estimated that around 40 percent of the poverty reduction can be attributed to or explained by social policies. And the remaining 60 percent can be attributed to economic growth. Now what is interesting here is to see beyond the impact that the external Asian crisis had on the Chilean economy—that the slowdown of the second half of our impact of social policy is related to a great extent to decreasing returns, large expenditure, public health, education, and other basic social areas of intervention; for example, government expenditure increased by 215 percent, but output the health care services only by 22 percent, and also in the education sector you see figures that point toward the same direction. Now what is behind it or what are the different causes? First of all, we are pointing toward hard reform that is needed such as the structural reform related to the political economy that surrounds the implementation, and the crafting social policies inefficient in public services in general, particularly in the area of health. Many times schools administrators would blame public social institutions for: inefficient bureaucratic management of such institutions and rigidity in hiring and firing practices due to the struggle with vested interests in these different institutions, rigidities vis-à-vis wage negotiation, and wage policies in the general lack of oriented incentives. All these factors mean that you do not improve poverty reduction at the first upsurge increase in social expenditure, so public social services need to be reformed. There is a need for more flexibility in decentralization and to come up with plans for incentives for oriented users. The traditional approach of public services also needs to be complemented by integrated family and community-centered poverty eradication efforts targeting extreme poverty.

Now there are two sides of the coin; one is the structure problem, the institution and the reform that are needed for policies to be implemented. But as I mentioned in the beginning of my presentation there is also a problem of the socio-economic and cultural milieu where poverty takes place and where the vicious cycle of poverty is developed itself. Different studies, for example, in terms of what is the school performance in Chile have indicated that around 60 percent of the variance in the school performance can be explained by social, cultural and economic milieu, so it is not everything to the institution themselves but also to the social characteristics of where poverty is taking place. Now the World Bank has conceptualized this approach as a problem of poor social risk management vis-à-vis poor families and appoints it a holistic approach. We can say that in the second half of the decade and up to now, there have been different efforts in Chile in order to transform these integral approaches into practical policies. There was a national program of poverty eradication in 1994, which was very limited in its scope. Later, there was a program, which did focus on the total universe of poor people. I don't have enough time here to go through details but what I think is important that I point out are that, first of all, when you are trying to use this integral approach the first problem you face is scaling up the different project, the point toward coordinating very different agencies and institutions of states and of civil societies, and finally how you design programs that help people to be more reliant on themselves so that they have skills and abilities and knowledge to overcome conditions and not to become dependent on different polices. Thank you very much.

Zhang Yali

(Deputy Director-General, Ministry of Labour and Social Security, People's Republic of China)

Liu Yutong

(Division Chief, Ministry of Labour and Social Security, People's Republic of China)

Thank you. First, I would like to thank the Korean government for organizing this event and inviting us to this symposium. We are glad to be invited here to the symposium with other economies. Secondly I just want to give the floor to my colleague, Mr. Yutong, because his English is better than mine.

Thank you, Madame Zhang Yali, Chairman and dear colleagues. Let me say that it gives us a great honor to be here to be actually together with our colleagues and members from APEC economies. This work is done in collaboration with Zhang Yali, who has a strong academic background on the research. We are glad to be taking this opportunity. We also extend our appreciation to the Korean colleagues who have successfully organized the event and invited us.

Now, let us go over to China's case. In the morning, one of our colleagues from the European Policy Center asked the question about why the Gini Coefficient is very high in China compared to India. As you can see, this picture can partly answer your question. If you look at the calculation of the Gini Coefficient, you see that China has a typical demographical structure. We have a very big rural population, as our colleague, Shen Hong Mei,, mentioned that it is a dual system in China, which we are making an effort to draft in effects. Also on top of that, there is a transition that has been taking place for two decades. In actuality, the process of transition is still taking place. That also causes an increase in the Gini Coefficient.

As for the presentation structure, we would like to go into the introduction part which looked at the economic side of a country and would also like to look at challenges facing China and its people. The difference of this presentation is that we will practically deal with the plans—how we are going to address socio-economic disparity. So we view the social security plan as a moderator of this session and other colleagues were mentioning that the social security would be one of the means to address the socio-economic disparity. In the Chinese case we will look at 6 schemes. And also, at the end, we will go over one last critical reflection and reveal some thoughts that imply how social security systems cannot be solved to be compatible with countries' context.

Now, let us go to the first part. This is the introduction part. We all know that during the past two decades China has been in a fast economic development track; some people say that an 8 or 9 percent GDP growth has been consistent in the past two decades. This has been very positive in addressing a disparity issue like our Chilean colleague just mentioned that they have also had their own case and that they have combated against poverty. According to the figures, the number 200 million, by that number, poverty has been reduced. Although we still have a long way to go, this number is quite remarkable.

The economic growth is also very positive in improving living standard. This can be told also from the bank savings; some people even say that the savings level in China is very high. So this reflects the economic side in the past 20 years. We also see a social dimension. We talk about the Gini Coefficient and we also talk about the ratio between rural and urban average income in the past two decades. This has been an actual upheaval tread. I'll refer to the ratio in urban and rural average income. This income has increased from 1.8 to 6. This also shows why we have so big of a number in the Gini Coefficient.

In the year of 2001, the Gini coefficient reached to 0.458. This is already quite high. If it is above 0.4, it is already at the level of warning and we reached to the warning level in the year of 2001. And in the past 5 years this level has not been lessened to any extent. Some people say that this has even been strengthened. Before we touch upon the social security scheme in China, this also requires the background. We have had the phenomenon of lay-offs and unemployment which was not seen in the planned economic period in the past 15 years. There has been a big surge of the unemployed and laid-off employees. And there are other challenges including this illusion, which is another big challenge we have to address in this transition to market economy. Another challenge we have to deal with is the pension provisions by State Owned Enterprises (SOEs). We just reduced a number of SOEs as well as employees' pension provisions. And there are also rural insurance schemes we need to initiate to further improve the rural scheme, addressing social disparity to a greater extent. These are the 6 social dimensions we need to make effort in. In recent years we are not only giving an emphasis on economic growth and development, but we also have come to understand that we need to take the approaches so here we have incentive dual models, meaning that we have laid emphasis on social development in parallel to economic development and also in parallel to other economies.

The second principle is that we are putting people first because the rural sector is vulnerable and we have so many of them. We are making a pro-majority policy, including the employment services, securing development, and also including social safety net development. Only recently the top guideline to develop the new countryside drew the attention to rural workers. Let me say a huge number here, giving indications that there are around 120 million of rural workers. So this demonstrates the importance of making a pro-them policy, and also the importance of initiating rural cooperative medical services as well as rural insurance pension schemes.

With regard to the social security development, I would like to touch upon the 6 schemes, and the first one is pension insurance, although I will not be touching upon all the figures due to time constraints. I will just give some figures in coverage of last year. It was around 175 million as the same time reached to nearly 40 million. As for the depending mechanism we have actually initiated this mechanism that is a social pooling plus individual's accounts and its contribution and share are from employers and employees. I put some subsidies here, and this relates to transition cost. It's not clearly identified to make contribution towards the scheme. We put government subsidies there, indeed in the past several years, and the government has heavily subsidized this scheme, and it's going to be the same. We also make an emphasis on so-called administrative services. Now we are using SOEs as our extended branches of agencies to deliver services to bring things together in order to organize activities. This has been taken care of by the social administrative agency, so we can see about what percentage is receiving social services from our agencies. These are the statistics.

Secondly, in the background I described lay-offs and the unemployment challenge facing the country. This scheme was initiated to deal with this huge phenomenon. Here again I put some figures, implying again that we adopt mechanisms of social pooling at different levels and contribution and so on. Also as for this scheme there are two replacement enterprise employment service centers that actually measure the past so we are going to use the last mechanism to take care of laid-off and also to provide active employment policy. Again for the medical insurance system, here I didn't use the health insurance because now we know that social security is lagged behind in developing countries mainly for medical needs of the employees so, I will skip this one. Now we have come to work-injury insurance, the sign of employers' liability insurance. We see some of figures. It also covers occupational diseases. For menstruation insurance, this is another insurance applying to promote gender equality. Here comes the rural pension insurance scheme. Some figures are shown. Now we fully understand that for a huge number in rural population, we need to initiate and we need to put the mechanism in place so that it can take care of their needs. For the last transparency Zhang Yali and I want to share some of the thoughts with you as we evaluate social security policies in China. Therefore we need to actually be very objective to see, the impact of social safety net in place. So therefore we strengthen and highlight it and secondly regarding the pooling level, all the insurance schemes are operated on the pooling system at the prefecture level, the provincial level. In years we need to upgrade the pooling level. Another issue would be the institutional capacity development for our social insurance services. They also include some other technical issues. For the pension insurance scheme, it would be another issue. And for the depending investment it is another issue we need to move on. Therefore, we understand that there is a lot of social security issues we are facing. As my deputy director says, we have learned today, as we have yesterday, and we look forward to further cooperation with Korea on social security and also with other agencies. Also we look forward to further cooperation with each and every economy in APEC. Thank you very much.

Nobutaka Tanimoto

(Deputy Director for Economic Assessment and Policy Analysis, Cabinet Office, Japan)

Good afternoon all. It is my pleasure to make a presentation with respect to a hot issue in Japan. Japan has experienced a long economic recovery since 2002, but what is the fruit of long economic recovery came to threaten the household sectors with economic inequality in Japan. Each public opinion poll in Japan by various mass communications after the end of last year shows that the majority feel that economic inequality has expanded. And the issue about the economic inequality became one of the hottest issues this year in the national debate. Economic inequality is an important problem to emphasize in the process of designing policies aiming for the improvement of economic living standards of all people. Therefore, I would like to present the analysis of the situation regarding the economic inequality in Japan.

Before going to the analysis, I would like to introduce the background why economic inequality has become a hot issue in Japan. This phenomenon is concretely assumed by views from mass communications. The first one shows the polarization of consumption. It is pointed out on the household economy sector. It is a view from a person in the lower income bracket in his 30's versus a person in the higher income bracket. The second one is on the employment side. It is given that the payment system based on the seniority system changes. A new payment system of the performance-based evaluation is introduced and the straight line which needs a same age group of the same sort of occupation and almost same payment has collapsed. In addition, the devastation of the employment system, which increases non-regular employment, is often pointed out in line with the extension of inequality. Specifically, there are views that such an increase in non-regular employees by the execution of restructuring enterprises has expanded inequality of household sectors between regular and non-regular employees. Or young persons who are part-timers are not employed and educationally trained because of a severe employment environment that surrounds young people. Moreover, the third point shows the educational sector. It is pointed out that the lower income brackets also have been limited the educational chance or the chance of vocational training for young non-regular employees who are increasing. And the fourth point shows an increase in social problems. Specifically an increase in family receiving livelihood assistance and persons who commit suicide due to the social phenomenon shows inequity expansion. It is also pointed that the number of livelihood assistance grew to 600 thousand in about 10 years from no more than 100 people.

Now let's turn to page 3, regarding the income inequality. Firstly, the income inequality in Japan shows a gradual expansion tendency for the long run. The Gini Coefficient is a mirror indicator of inequality that shows moderate increase after the 80s by seeing the trend of the Gini Coefficient in Japan. However, this moderate increase in the Gini Coefficient is under the influence of the dynamic trends of aging population the reduction of household size. This is showing the base. First of all, changing a dynamic trend in aging population is described. It is on the left side of the figure. The income inequality in the elderly population is large as the Gini Coefficient is calculated by age group. There are some causes of high levels of the Gini Coefficient in elderly people. The income for elderly people reflects results which accumulated from when they were young. There are more choices for elderly people whether they keep working or start pension-life. The level of inequality tends to be larger compared to the younger age. Under such structure, the ratio of elderly families' increase means that the Gini Coefficient of the entire society is pushed up. Moreover, looking at the right side, the changes of family structure such as reductions of household size influence the Gini Coefficient. A tendency of decrease in the number of household size pushes up the Gini Coefficient because it leads to an increase in family with a lower income. Actually because of the growing number of nuclear families, a long-term tendency in Japan, the number of household size decreases.

Now let's go to asset inequality, page 5. Asset inequality in Japan has the tendency to decrease. Also the levels are higher than income inequality. Real assets such as land, houses, housing lots, saving bonds and stocks are financial property here. The Gini Coefficient of real assets is about 0.6, while that of income is about 0.3. And that of financial assets shows the level of about the 0.5. It is thought that the level of the inequality of property is larger than that of income inequality. Because the accumulation of the income is reflected to the asset, the asset growth is different. As for the time series, however, the transition of the Gini Coefficient for asset inequality becomes moderately smaller in the '90s. This is similar to the trend of actual property value or price. On the right side, this shows housing price. But in the '90s, buying a house became easier due to the fall of house prices. After the property price rose, in the later half of the '80s was the "bubble economy." And financial assets also show a slight decline in the '90s, reflecting changes in various stock prices.

Now let's start with the middle class consciousness. I pointed out that people who recognize economic inequality, such as that of income, had expanded in Japan and has become the majority. However, the living standard of the country is seen as stable as the middle class consciousness stability from the '70s.

The Japanese government has continuously inquired the level of life to the household in public opinion polls so far. The result of polls show the living standard is mediocre for around 60 percent from the '70s to now. Comparing the level of consciousness to level of life internationally, a similar result is observed as the right side shows. The United States and Germany, where similar investigations were done, show similar trends with Japan.

As I have pointed out, the income inequality shows moderate expansion but its structure factor and the stability of the consciousness is in the middle class. But in Japan, it is necessary. In Japan, young people's problems may become the expansion of inequality pointed out. In Japan, it is necessary to note the civilian employment situation such as increases in the young persons who are part-timers or not in employment or an education trainee. Such young people do not show up easily from the viewpoint of inequality remarkably in statistics because they live with their parents. They are called "parasite singles." The "parasite singles" receive life support from their parents, but they may fall into a serious situation when support dries up in their middle or old age. So, it is necessary to cope with the viewpoint that leaving the young problem will cause the expansion of inequality in the future in Japan. It is important to enhance measures to support occupational independence of the young people.

And at last, this is the conclusion. In my presentation, I evaluated the trend of inequality in Japan based on statistical data. The gradual expansion of income inequality is seen based on official statistical data as a whole. However, the family structure such as the reduction of the population movement or the increase in elderly households makes the Gini Coefficient moderately increase. As for the middle class consciousness, consciousness at the level of life, the value of life has not yet been confirmed. However I pointed out that it is necessary to note that the change of employment or lifestyle in young people should be coped with by the government or economic sectors, such as the corporate sector or the housing sector. That will be all for my presentation. Thank you.

Discussion

Peter R. Orszag *(Moderator)*

I think we can take some questions before we start. We're about 15 minutes late. I tried to end just 10 minutes late to make this time more available. So does anyone have questions or comments? Everything was so clear that there are none?

Discussant 1

With the Chile experience, there was a lot of money you saw poured in health and education; you didn't talk about government finance. How was it financed?

Peter R. Orszag *(Moderator)*

How were the increased investments financed?

Hernan Gutierrez B.

Basically through a tax refund, at the beginning of the '90s, which was as I just casually mentioned that they are all encompassing different form of taxes and so on. At the last reinforcement of the capacity of the state with the straight taxes and to reduce tax evasion. And finally the higher incomes were earned by the economic growth in Chile. The terror was reduced, the trade increased sharply up to the Asian crisis. So that creates more income for the government.

Peter R. Orszag *(Moderator)*

Thanks. Other questions or comments? Anyone from the panel wants to add anything? We might finish more than 10 or 5 minutes early. Alright. I think…

Hernan Gutierrez B.

Just a comment, you know, since I have couple of minutes more. I'd like to elaborate a little bit more on the idea of the institutional reforms; and in the new blueprint we need different public and private agencies, too. By the way, it's not only the critique of the public sector but it might also apply to the private sector as well. And I saw in the presentation of our Korean colleague the notion of insider and outsider. The point there is, and I think that's where the developing countries share the same challenge that the European countries face, is that the state apparatus and the organization of the policies and the frame of the policies themselves. We created in the different social environment basically the welfare state, the Keynesian approach, and the industrialization the period of the development around the world. But today, the social promises are very different. These policies, agencies, institution, were shaped in order to reap the benefits of growth and to distribute income to organize interest in society; basically trade unions, and another unions and labor organizations. But today, as some other presentations in the morning pointed out, most of the problems lie in the informal sector; in the new actors, like, for example, like women in some other presentation which were very interesting for that point of view, who are not organized. And so that's why there's this "insider-outsider" problem. Usually traditional policies are created for the insiders of the system, what we needed to create projects and institutions to deal with problems of outsiders of this economic system.

Peter R. Orszag *(Moderator)*

OK. I want to thank the panels. I guess we are going to take a 10minute coffee break, so we will come back at 3:10. Thank you very much.

Part 2

Announcement

The second part of the second session will be moderated by Professor Richard Cooper and we'll have 4 presentations by Mr. Tb. A. Choesni, Mr. Ross Judge, Mr. Javier Edmundo Abgattas Fatule, and Dr. Pattama Teanravisitsagool.

Richard Cooper *(Moderator)*

Thank you, we've had a modest change of schedule for logistical reasons, we've moved Mr. Choesni from the final, the 4th session up into this session and so we'll begin the panel with his presentation. 15 minutes maximum.

Tb.A. Choesni

(Director, State Ministry for National Development Planning, Indonesia)

Thank you professor. Thank you very much for having me here. This is a very important symposium and I congratulate KIEP and APEC for having a very important seminar at this very beautiful hotel. And also thanks for moving me to an earlier schedule, because actually it was my mistake. I opened my email last night and that's when I realized I needed to be at the office sooner than I expected. So that's my mistake. My Thai colleague reminded me that my name is actually confusing. You can see my complete name there.

This is Indonesia, we have 17,500 islands and only a few is inhabited. We have around 300 ethnical languages. Here is Aceh which had a very large disaster due to the tsunami. And this is Yogjakarta and Central Java, on the 27th of May they had a very big earthquake with more than 5,000 casualties. It was a 5.6 Richter Scale earthquake as you still remember. And in the Asian crisis the Indonesian economy was kind of collapsing by producing 13.4 percent less, so the GDP growth was minus 13.4 percent, but the next year in 1999 we got around 0.4 percent GDP growth and then in 2000 we grew by around 3.4 percent. It's still less than pre-crisis but at least we are growing now, and by 2005 we grew by 5.6 percent, which is the largest after the crisis. But economy seems to be slowing down, we see the first quarter statistics of the GDP, the year on year growth is slowing down to 4.6 percent. So the economy is growing but we are concerned because it's slowing down.

This is for the longer duration, the social indicators from 1970 to 2002. All the social indicators seem to be increasing or improving, the life expectancy and infant mortality rate as well as adult literacy. Although I must say that our social indicators are less than our surrounding neighbors, I mean by neighboring countries are like Malaysia, Philippines, and Singapore etc.

This is poverty trend in Indonesia. The earliest calculation in poverty was in 76, this is the first calculation of poverty indicators. It was almost more than 40 percent of the population that lived under the poverty line. And then decrease seemingly very steep but the more correct one is like this. From 40.1 percent the poverty went into 11.3 in '96 and then in '98 we revised the calculation, we recalculated the '96 figures, and then it ended up with 17.7 percent in 1996. Just after the crisis, poverty pushed up to 20.2 percent, and the number of poor was almost 50 million. I just want to look at this previous one, seemingly it is very steep, but this is not very correct. I use this graph because many of the presentations of my colleagues are using this graph. If you look at the x-axis actually it's '76 and then the next is '80, '84, that is the data that we have. Technically, this is not the x-y graph.

If you look in Excel, I use the x-y graph, it looks like the previous year's is not as steep, it's not that steep. But you can see this is the correct trend, however, using this, it's interesting that the target set up by the government in 2009 is 8.2 and we can have a very interesting discussion on whether we can achieve the target or not. So the last 2005 is still 16 percent and we hope that we can achieve the target of 8.2 in 2009.

This is a typical graph for the log of expenditure distribution. I just want to say this is a World Bank's graph. Our poverty line is between the 1-dollar poverty line of the World Bank and the 2-dollar poverty line of the World Bank. Remember this is 2 dollars and 1 dollar is adjusted by purchasing power parity. But I want to show that this line across the graph at the very steep part of the graph. It means that we have a huge number of people near the poverty line.

This is the exercise when I use the Susenas 2004. This is our social economic survey covering around 225,000 households; it's around a million of individuals covered. This is very simple exercise, if I decrease the poverty by 10 percent, the poverty incidents would decrease by 35 percent but if I increase the poverty line by 10 percent it would increase around 40 percent. So the near poor is very big in Indonesia.

This is access to basic social services, differentiated between the non-poor and poor. Households without access to safe water is much bigger for the poor, the yellow one is for the poor and the red one is for the non-poor. As well as access to sanitation, education participation in junior high schools as well as the attendance by traditional paramedics for the birth—birth attended by traditional paramedics. So there is a difference between the poor and non-poor.

Spatially, we also have the issues of poverty, the red one is the province with the biggest poverty incidents in percentages. So spatial poverty is also an issue. This is even before the tsunami, and some of the east provinces of Indonesia have a very high poverty incidence, for example compared to Jakarta. Jakarta is our capital city, it's all green, implying that it has a relatively very small poverty incidence.

This is one policy that is very interesting all over the world, I think. This is about fuel subsidies. In Indonesia as well as in many other countries, the price of the fuel is regulated, i.e. subsidized. The fuel subsidies are for gasoline, diesel and kerosene; this is especially for household consumption like transportation, those kinds of things. In 2005, as we all realized that the world oil prices were increasing and by last year the domestic price was less than 1/3 of the international price. Even for the kerosene, it's only 10 percent of the world price. The issue is that we have a great pressure on our budget, and by quarter 3 in 2005, the budget deficit was almost around 1.0 percent of the GDP.

This is typical when we discuss the GINI-coefficient; usually we have the Lorenz curve to represent it. The Lorenz curve is actually a good way to represent inequality. But for consumption, we can use the concentration curve. The y-axis is the consumption but it's accumulated, and the x-axis of the Lorenz curve is for example income inequality is the proportion of population sorted by income. We can see for diesel and gasoline most of the household consumption accrued to the non-poor even to the richer one. But one line is very near to the natural line, I mean 45 degrees, is consumption of kerosene. Kerosene line is near to the natural line, so it's kind of funny that kerosene has been used by all Indonesians from the poorest to the richest.

I just want to say as oil prices increased we raised domestic oil prices two times, 29 percent and then in October 2005, an additional 114 percent. It was a very decisive decision by the government. But decreasing subsidies and increasing the registered oil price means that we have some savings and what we're saving was used for social protection programs, including an unconditional cash transfer. This is important so I'll just read it. This was designed to protect the poor against the sudden impact of the price increase, so this not long term solution, but short term solution. So it targeted 15.5 million poor household or 25 percent of the population by providing them by 100,000 Rupiah per month. And hopefully it's covering both the poor and the near poor because as you can see from my graph before, the near poor is very big. So the government provided around 1.8 billion US dollars, actually 18 trillion Rupiah. Actually the analysis is very simple and it says that the poor people or the poor households get more than they lose by price increases because the inflation was up by 85 percent in that year.

Besides that, 12.5 trillion is for education, health, and infrastructure.

This is the education profile. The line above 45 degrees, we call it progressive, while the below the 45 percent is regressive. Elementary school, junior high is very progressive, poor people are going to that school more than a rich person. That's why when we are spreading the operational fees for the school or all the elementary school and the junior high; we expect that the assistance would be very progressive. Because they go to the schools where the poor goes, for example the elementary and the junior high, it's very progressive. And the BOS [assistance] is for the operational cost for the school, hopefully they can decrease the tuition fee for the poor.

This is the structure of our development plan actually. We have the first elected [by the people] president. We are deriving the mission of the president to our national medium term plan.. In 2007 national plan, we have a development theme and then development priorities.

This is the agenda we got from the president; welfare, politics, and security.

The theme of 2007 is increasing employment opportunities and reducing poverty to increase the people's welfare. Poverty is the center of our 2007 agenda. And this is the last one.

These are the priorities we get for 2007 annual development plan. The first is reducing poverty, but if you read from my handout the other priorities are very related to reducing poverty. For example increasing employment opportunities, agriculture revitalization, quality of education and health service, they are very related. And the second one besides restructuring and rehabilitating, we are adding mitigating and overcoming disasters because we need to have assistance for mitigating and overcoming the disasters in the future.

I think that's all. Thank you very much.

Richard Cooper *(Moderator)*

Thank you. We now turn to Ross Judge on New Zealand.

Ross Judge

(General Manager for Strategic Social Policy, Ministry of Social Development, New Zealand)

Okay. I'd like to add my thanks to the organizers for organizing this seminar and the invitation to be here. I'm going to mainly talk about the report we put out annually rather than actually the policies or particularly the state of disparities in New Zealand. But a little bit of context, first of all, we've got nearly 4 million people, 12th the size of South Korea, but 3 times the land area. Most New Zealand is descended from European immigrants from early 1800s on, although we have a significant indigenous population in 15 percent Maori. While retaining and reinvigorating the culture, they are also very well integrated with European, when descendents over 40 percent of Maoris state that they are both of Maori and European ethnicity. Immigration from the pacific occurred more in the 1970s and from Asia in the last 10 to 15 years, particularly from China, India and Korea. We're mainly an urban nation, despite the fact of our reputation as a Pastoral nation producing meat and rural dairy products, and when people immigrate to New Zealand they tend to settle in Auckland, the largest city. Whereas they immigrate from everywhere. In result of this about a third of Aucklanders were born overseas. It's significant in terms of disparities that over about 30 percent of families with children were one-parent households. This is the picture of the cover of the social report. It measures the level and distribution of social well-being. It uses 10 desired social outcomes or outcome domains in 42 indicators and its purpose is to measure the level and quality of life, both its level and distribution and provide greater transparency and inform public debate. Further reports came from some concerns among academics and some politicians that the economic reforms that New Zealand has undertaken in the late 1980s and nearly 1990s had given insufficient weight to social outcomes. We had introduced much clearer fiscal and economic reporting and we needed to do the same for the social side. So the report uses these 10 domains we originally derived them from the work of royal commission on social policy in the late 1980s. The commission consulted extensively with New Zealand in the view about the social well-being and a decent quality of life. They produced a really large report which was generally referred to as a doorstop. But we were able to pick up the good research in 2001 when we produced our first social report. After we produced the first one, we did quite a lot of consultations throughout New Zealand and got pretty good agreement to what we've done. We just added in the leisure and recreation domain which is something we have previously missed out. So for each of the domains within the report we have a definition, I put the health one out there, and express what the aim of that is. All people have the opportunity to enjoy long and healthy lives. So each of the domains has that, and then within each domain we have indicators from 2 to 6 indicators of performance, and they are the ones up there that are used in the health one. Here, we try very hard to produce, to use indicators that if they move in a particular direction, we can say whether social outcomes have got better or got worse. The report's not just meant to be a collection of statistics, and the reader can make out of them what they will, rather it's meant to give a clear indication of how we're going. We don't, for example, use an indicator for population size, because we don't have a view about whether more people or less people is better. We get a lot of cooperation from other government departments in producing the reports, so the judgments that we make about what to include and what to say about it have been done very much in discussion with other government departments. The report devotes 2 pages to each indicator and we covered the information up there. We define it like I showed you for the health one. We describe it in a paragraph the relevance of the indicators' well-being, we set out the current level and historical trends. And then we break the indicator down into different subgroups. That's where the socio-economic disparities are bit seen between different age groups, ethnicities, regions, male/female, those sorts of things. We finish each one with an international comparison to the extent that that information is available. And then we try in the conclusion to the report to sum up recent changes in well-being and we give the conclusion a different flavor each year. We might be emphasizing particularly the regional variations in different parts of New Zealand, other times it might be international comparisons. We have resisted using a single index to sort of combing together sort of different aspects of well-being into one number, rather we use words and figures. We wouldn't have used the one that was shown earlier particularly because it showed New Zealand as such a bad life. No, not for that reason, but we just do it this other way. Okay, in the conclusion to the report we have these wheels and they look a little bit complex but with a little bit of explanation I think they'd give quite a good picture. This one here is the comparison of the social outcomes between the mid 1990s and the 2002–2004 period. And each of the spokes on the wheel is one of the indicators so you can see at the top you got a shaded area that's health and there's life expectancy and suicide rate. The blue circle that's around the wheel is the level of '1995–1997 and then the spokes with the red color are the 2002-2004 in comparison to the '1995–1997 level. The spokes are arranged in such a way that out is good and in is bad.

Sometimes out is more less depending on whether it's a good thing or a bad thing. So life expectancy, you want more of that, so it's slightly improved, over the period, it's just outside the circle. And suicide has gone down, and there's been a big change bigger reduction in suicide so that's sort of further outside of the circle in the ratio that's shown on the graph. Obesity, you can see there, has increased and so that's not so good. All right, now we do it in different ways, this one here is the average for Maori versus the average for New Zealand Europeans. In this case, the circle is the Europeans and the red spokes, the Maori. So you can see there is a general view that the Maori do a lot worse in average than New Zealand Europeans. There are some exceptions on the left hand side just outside the circle, the family cultural activities and surprisingly perceptions of safety are, Maori tends to feel they are safer although they're not in terms of crime. And on the right hand side there's participation in early childhood education which has had a big boost in the participation of Maori, but what you don't see behind the story is mainly the second chance diploma educations it's not on degrees. So with all these sorts of indicators you got to know the stories behind them to really interpret it. Maori are doing really badly; it's really close into the circle like on housing. A fun one, this is women relative to men. You can see at the top of the graph that women do a lot better at suicide, the men they are more tertiary participation down the bottom is injuries, safety at work because they're not so much into forestry farming and fishing which are dangerous occupations for us. And one there at the top left, I can't actually remember what that is. They tend to do the perception of safety; they perceive themselves as a lot less safe than men. New Zealand relative to OECD; the OECD is the circle, New Zealand compared to the average OECD does well on unemployment, less well on income, does well on the perceptions of corruption. In 2005, as a result of demand internally, we produced the social indicators for the latest year available at regional and local level. Data availability reduces as we become more local because some national data is from sample surveys, it can't be broken down to such a fine level. Fortunately we are still able to get some indicators for significant domains. This year we added historical data for the regional and local level and we found, we are still producing the report for this year, but it's vastly increased the data we have to handle, when we've done this with 74 local authorities. We produce these maps on the regional one and arrange them in such a way where green is good and red is bad. If you come as a tourist to New Zealand I can tell you that the very best scenery, the mountains, the lakes, the venture tourism is down on the bottom of the south island in those red covered areas. Unfortunately that's the area as this graph shows where we got the highest road casualties. Come and visit me at Wellington, I'm at the bottom of the North island with the dark green. You don't have to worry about driving on the road, but unfortunately the scenery is not nearly as beautiful. The social report gained quite wide spread support in New Zealand both on all sides of the political spectrum we've probably been helped by the fact that it's been good years over the last 5 years. And so the news tends to be better than worse. I think it's also been important in that the indicators have got a clear meaning to them. We keep the presentation as clear and simple as possible. And through research, try to improve the quality of what we're doing and consultations. The choices that we make are seen to be reasonably authoritative in the data reliable.

Richard Cooper *(Moderator)*

Thank you very much. We now turn to Minister Abugattas who will tell us about Peru.

Javier Edmundo Abugattas Fatule

(Vice Minister of Economy, Minister of Economy and Finance, Peru)

Thank you very much. I'm very honored to be here and participate in this big symposium organized by the Korean government and KIEP. The purpose of this presentation is to share some concepts on a few basic elements related to socio-economic disparity instead of referring much to Peru. I think there is a growing complexity in development issues that challenges us to explore a lot of new elements b ut at the same time to cope with everyday decision making processes. So I will concentrate on two main areas that emerged from recent experience in the socio-economic experience in Peru. I will mention two of them: Human development since the beginning of the life and the other is family income and basic consumption, mainly in rural areas where the globalization growth is not reaching to all the population. So I will cut the references to the economic experiences in Peru. We have an extra presentation there for the ones who are interested and what I can say, in general terms, is that the macro side is going quite well, but the micro and the employment are not running at the same time. I could use a part of the reference of the Chilean presentation. It's a good reference for our macro side, and I could mention only a few things using the same scheme: With respect to the opening of the economy for world trade, unilateral opening of our economy, free trade agreements, conservative fiscal policy and expansion in capital markets, we are on the same line. And also with respect to the tax reform. But unfortunately in social aspects, results are not as good as the Chilean ones, and I will mention that later on. So I propose to concentrate on these few selected elements. We could use it within countries where disparity is high. So I will use these elements like background, for example, the people, and I will mention several times the people who live together in a territory of APEC, Latin America or Peru but heterogeneity is what I want to recall in your attention. And secondly, major factors like in policy experience which is driven to complexity and actions related to that complexity. As a preliminary conclusion I will say we need to learn to listen to different ways of life, habits, and customs at the local level. And that's what we have been learning in our experience. And in the preliminary recommendation as we have mentioned before is how to integrate safer and safeguard the human potentials since the beginning and to promote some local business which is some kind of complementary to the grown exports which are very cost related with the opening of the economy. Later on, I will try to make additional comments on Peru. So we have APEC and APEC economies, I will turn down to Latin America and again, population, territory and diversity which is very high even in Latin America. We can try to think in our countries, countries in APEC, countries in Latin America and a country like Peru with 24 departments. But with some demographic profile, that I will mention several times, we are 27 million, and it's very concentrated if you see that area where it's concentrated there is Lima, and that's the rest of the departments. So a huge concentration of population in one city and then we have another third of population living above 2,000 meters above the sea level. And a third is living above 3,000 meters above the sea level and the rest in the jungle. So we have a really diverse environment. That's the income trail, I'm telling you that's the Andes and that's an old income trail with Ecuador, Chile, Argentina and Bolivia. Remember our history and how the history is still there and the relation between Catchers and Admirers and people who live in the highlands, all in the desert and the coast are all a part of the complexity. So I would refer again, I will use Latin America as a reference more than 60 million people similar and different at the same time. So we can reproduce this thing at the internal of each country or in between our countries. Demographic context, which is changing disparity, is very high and related again to historic, ethnical, geographical, and economic aspects. And I want to recall an issue, which is that there are more than 10 million births per year in Latin America, more than 25,000 per day. And that's very closely related to human capacity, human capacity since the beginning. And I want to talk about that later, so I will insist that in people, territory, basic needs resources, employment, organization of society and government and state—all these factors which are very complex could lead us to discuss later on some extra elements. So economic growth, we have here the economic growth in the recent years, yes the developing out share is growing much forth. Latin America even if it's growing is not growing enough. Recent years, yes, they've shown a continuous growth in Latin America. But still that growth is not enough for expectations and needs. The GINI we have been talking about, again, Latin America is the more than the higher disparity in the world. You could see that even the Sub-Saharan Africa and South Asia, East Asia and of course European and OECD countries. But we see a country as Peru, you will see people which is living parts of our country where in all this areas, people with very high disparity or very high income on the other hand. So this kind of analysis if turned into one country could lead us to an extra discussion. Again, this disparity, it shows also in the fragmentation of the labor market. We have a lot of informal sector employment in Latin America and Peru is the highest again, but also Venezuela, Brazil, and Columbia. And we notice that in the case of Peru it is growing so that employment in the informal sector is part of our economic structure and part of our problem. I will try to show, for example, intra-country inequalities. I'm showing Brazil, and Peru, and you can see there inside the country we have people with high inequality in one hand and lower inequality in another. This is Brazil and this is Peru below people with 60 percent of inequality in some departments and there is even more in Lima and other areas. So it's inside one country we could see that again and again. Again children under 5year age again in Latin America and under lodged children below 5 years change from region to region and from country to country. And urban and rural areas are a problem. Rural areas in Peru, for example, are very isolated and very difficult to reach there. So service is very low quality. Education, we have mentioned education several times, again, education is very far from European, OECD levels and if we don't cope with this issue of education, Peru is the worst in Latin America, really in Latin America. And we have a lot of information on that, and what is possible, and what is not possible to do in a short term. It will require Peruvian standards 15 to 20 years of continuous effort to get an adequate level of education for all. So I want to reflect on these few issues. How does the decision making process take into account the complex trends of a lot of different but related affect the quality of life of our population. I think not in all countries, not in the ones with high disparity. Is it a lack of money only or is it a lack of the ways of some societies and governments are performing their basic duties. In the Peruvian case I would say that we have a lack of fulfilling duties, I would say, in societies and in the governments. So we have still problems in the way society is working. But if we ask what the minimal aspects are when disparity is high, is it possible to integrate economic, social, and environmental aspects? Is local reality being considered? My answer for Peru is no again. And all that leads to a short-term vision and memory when disparity is high. Poverty has a result also to reduce the analysis to a very short term. And a lot of countries like Peru have this kind of problem. We're facing short-term problems not promoting long term analysis. In the next one, I want to try to discuss that with you. Imagine that the development, this is something that could sound strange but try to imagine the development of one person one year before and after each birth. What I try to put here is we can draw a line with the potential of a human being that will be a way to tell. It's a highly complex process which results in a really unique person. What I can see here is that if for some reason the birth is less than 2.15 kilos, that person will be losing capacity if we don't take enough attention. So if the necessary condition exists, that will be the development way, if not, the difference between the optimal development for a specific human being and his real capacity, it will be charged all the life, all life long of that person. I would say that 10 million in Latin America half a million in Peru or 40 million in APEC economies. Each birth, which is not given appropriate attention, is a risk. And in the case of Peru we have 25 percent of the population at risk. If we reach the first year of age, and we are already down here, all the rest of the life of that person will be experiencing a disparity, a huge disparity. For the person and for the society, so I would concentrate that as the first point. And again, this shows the disparity in Peru, people, which is attended to in a hospital and in the lower quintile we have only 20 percent of the population being attended adequately. The Millennium Declaration perhaps could lead us to the fine impositions. There are multiple facts as daily life of all heterogeneities, adequate employment, the family income, the short-term vision, our level of public service. It helps us integrate our societies, as everybody understands the laws and regulations; we have a lot of problems in countries like Peru. We have a lot of laws and regulations, but more than a half of the population does not understand what the law means. Not even the legislators know, or understand well that kind of law. And enforcement of the law becomes a very difficult problem. And when the signing and implementation policies register monitoring and learning with things we should all together learn discuss and apply. So that's the minimum I know of.

So it's time to wind it up.

So in the one page paper I distributed, I was saying at the end that we have to make efforts to integrate socio-economic policies. We can try to. It's very difficult, it requires a lot of effort, exchange of information, communication, but I think it's worthwhile. The second and in addition to those long-term goals, I think it's urgent to take on clear results with two basic efforts. To begin with, in economies where disparity is high, first of all, safeguard human potential in all the population. Especially the attention should be put in the period between one year before and one year after we have adolescents, which are being pregnant and we have a lot of problems afterwards, so it's more than 9 months before, it's one year before, to try to cope with that. And another thing is to strongly promote small private businesses at the local level at the same time, the liberalization and trade is generating growth in the modern part of our economies. But that's so regarded for rural areas of less development capacities. I have put the rest of things about Peru, his location, his complexity with the Andes over there, so I will pass this. I only want to point out one thing: the change in demographics. We don't have anymore pyramids, change is coming much more rapidly. We have already aging problems, we have much more children from 0 to 4 and we still have the demographic bonus coming in and we don't have employment for all. So that will affect pensions, that will affect the elderly, and that will affect a lot of things. Taking into account demographic changes is very, very important. And this is a graph of the population since the 1950s. These are the 24 departments of Peru and this is Lima. So this split and the problem of trying to re-fractionate fallen apart. This is something like a reference in the Peruvian cases. But we have this, the country splits into two. And that trend is confirmed by the recent census also, so we have a problem now, this is the modern part given the results of the economic growth and we have all the rest. So I will last with this one. This was Peru in the 50s and this is the different capacity of countries to not lose opportunities. This was a trend of Peru, and we have fall, the society has not been capable to continue growing. And we have now a new opportunity here, we are now here with four continuous years of growing how to learn not to lose opportunities and you have the countries where with Peru, we have Chile, Mexico, Korea and Singapore since the 50s till now. I will end because of the lack of time. Thank you.

Richard Cooper *(Moderator)*

Thank you very much. We turn finally to Dr. Pattama who will tell us about Thailand.

Pattama Teanravisitagool

(Director Office, National Economic and Social Development Board, Thailand)

Thank you. Good evening, we've come to the last case of APEC looking at disparities. I will try not to bore you with a lot of information that I have prepared in advance. Actually if you look at the hard copy you will see a number of pages that I have prepared but I will try to skip some of them. There will be three parts in my presentation. First, we'll look at the background of development in Thailand. to point out, the situation of poverty and disparities in the country. And then we move on to look at the major factors or determinants of disparity in Thailand. And the last part of my presentation, I will go through the experiences in Thailand in order to reduce poverty and disparity and hopefully, if time permits, I will end my presentation by giving some policy guidelines that Thailand will be following, and will implement in the next 5 years under the national economic and social development plan. So let me start with the first part to go through briefly on the economic situation in Thailand. I'm sure that many you have heard that the Thai economy enjoyed a high growth path during the 1980s, particularly the early 1990s. That was the so-called miracle decade for Thailand. The high growth rate was helped primarily by a robust export performance and associated private investment supported strongly by foreign direct investment particularly from Japan, South Korea, from the U.S., from the European companies. And then the export composition has become more dominated by manufacturing goods and particularly those light manufacturing goods until the very late 1990s, then we moved to more high-tech industries including the auto industry and the electronics industry, for example. So if you look at the data on GDP, very recent data on GDP from 2002 to 2005, you can see that after the world economy slowed down in 2001, then the Thai economy picked up quite impressively with 5.3 percent growth in 2002, and moved to even higher 6.2 in 2005, the Thai economy was affected by a number of hampering factors including oil prices, Thai is not an exception, and then also a drought in the country, and Thailand was impacted by the tsunami—a severe impact on the tourism sector. Very interesting feature or figure, looking at the Thai economy, there you can see the inflation for a number of years after the crisis. Thailand seems to enjoy a very low inflation rate environment. However, move into 2005, you see a very high inflation of 4.5 percent and that reflects the risk of the country due to the oil price rises and, of course, that put you know the problem of poverty at Thailand at risk. Now looking at the situation when we put the things in perspective, putting economic growth and then putting employment and putting poverty incidents together, that showed that Thailand's economic growth had been associated with, of course, employment generation with a very low unemployment particularly after the crisis. And also in term of poverty, it declined quite significantly. Look at per capita income in both real terms and nominal terms and you can see that after the economic recovery per capita income increased quite significantly. And here again, just to show that okay, economic growth reduces poverty, and if those of you who refer to number of poverty incidents in Thailand, I hope that the number will not confuse you. Recently NESDB, the Office of National Economic and Social Development Board, we have revised the established poverty line to something higher, so now it becomes a dollar a day, and then by doing so we have a higher poverty line. And then the number that you refer to is 44.9 percent in 1988 and that came down to 17 percent in 1996. That is the eve of the financial crisis. And here again, I compared, just to make sure, we used the new established poverty line which refers to one dollar a day so you can see that the latest data shows that in 2004 the poverty ratio was about 11.3 percent, that is equivalent to about 7 million people out of about 64.5 million people in Thailand. Now if we look at poverty incidents in Thailand put in regional comparison here, you can see really well that the red line, the top line, represents the poverty rate in the northeast of Thailand. So the north experiences the most severe poverty problem. However, we pick up after the crisis; the problem in the northeast seems to be the worst again. But if you notice, after 2002, 2003, and 2004, we can see that the poverty incidents declined quite rapidly in the northeast, saying something that if we look at the policy experiences, and we look in terms of the budget that had been allocated to the project target at rural development looking at area in the north and northeast, that had helped in terms of poverty incidents which declined quite rapidly. Here if you compare between urban and rural areas you can see again, the problem of poverty seems to be more severe in the rural area more than urban areas. However, after the crisis, and particularly after 2002, we saw a very rapid decline in poverty incidents in rural areas. That should be a promising indicator and a promising sign for the poverty problem in Thailand. And now we move on to look at whether economic growth is trickle-down growth or is pro-poor growth in Thailand, looking at the nature and courses of disparity. Looking at the GINI-coefficient, the red line, you can see that the GINI-coefficient, if you went back as far as 1981, actually saw that the GINI-coefficient in Korea indicating that the income distribution in Thailand was getting worse going through 1980s and 1990s. However, prior to the crisis during 1994 –1996 when we saw an improvement in terms of income distribution, the GINI-coefficient went down. However, after the crisis it picked up again, showing that income disparity becomes a problem for Thailand again. And also after the economic recovery, 2002–2004 the situation seemed to improve. Here, if you put income distribution looking at the income share of different groups by quintile separation and you can see very well the top 20 percent richest people of the country own almost 60 percent of the income share of the country, but at the same time, 20 percent the poorest own about 5 percent. However, the situation again in 2002–2004 seemed to show some improvement, so we see that the middle 60 percent seems to own more and a higher share of income. So some conclusions we can make regarding income distribution when we look at the numbers, first of all, on numbers, an existing study on disparity in Thailand in the last 30 years of development, for example, by Professor Brandy. Professor Manty shows some conclusions that all studies agree that the distribution of income in Thailand might be already in the beginning of the development period. But the trend was very clear that the disparity of distribution of income worsened as the country become more and more developed. And then this pattern of development fit in with the classic Kuznets hypothesis which says that the distribution of income of the typical economy would become more unequal in the early stages of economic development and then reach a plateau of the highest point at a certain level where economic development then begins to fall at a higher level of income. If you notice from an earlier case of Thailand, the increasing trend of income, inequality appeared to have reached the highest point in 1992. Then the Gini-coefficient was 0.536 and then after that, the Gini-coefficient started to come down. However, it had been noted in World Bank studies in 1999 on the dynamic of income inequality of Thailand that the slight climb-up in inequality prior to 1997 of economic crisis might reflect the fact that the managing profit and other revenue of the higher income distribution because in 1995 and 1996 Thailand experienced export contractions. And also that was the beginning of asset deflation period, so those well-to-do on the top of the income class were mostly affected. And then, there has been less disparity and poverty incidents between regions in Thailand with the northeast as I've mentioned earlier, having the highest poverty and Bangkok, probably virtually with no poverty. Disparity has widened over the years with poverty declining at a faster rate in the better of region as you see the central part of Bangkok for instance, then in the poorest regions, particularly in the northeast and in the north and also followed by the south. However the economic crisis further worsened the regional disparity in poverty as incidents in poverty increased sharply in the northeast as I mentioned between 1996 and 1999. And somewhere in the south and in the central regions, and actually declined Bangkok and the north in 2002 to 2004 when the disparity seemed to have been narrow.

And I put in the parenthesis that hopefully this improvement suggests that inequality in 1998 and 1999 was a transliterate event for Thailand. We are moving on a better path. Therefore, I put it here to better understand that in terms of inequality in Thailand, a good place to begin is the sharp increase in income inequality between 1998 and 1999. This was directly a result of the economic crisis which had a proportionately negative impact on the income and the livelihood of the poorer section of Thai society. So from there we move to looking at the major factor and determinant and I have two minutes left. For the case of Thailand, actually if you look at experiences from different cases since the morning we can see really well that all those factors I put over there are all determining factors in terms of poverty and income disparity in a number of countries, first of all, is education that shows that this is the largest explanatory variable if you put it into econometrics. And also access to a formal credit market is one of the determinants. And also being in a rural or urban residence or urban area and also the age and sex of the household head describes the demographic characteristics of family. And looking at the occupation of household heads and also of land ownership, all those determinants or factors underlying the situation of poverty and incidents in Thailand, similar to others. I will skip this number; this is just to run through econometric study to show which one, which factor plays the most important role in explaining income distribution in Thailand. And as you can see there education is the most important, which tells us in terms of policy movements or guidelines that educational reform improvement in terms of quality of education training of labor, all those will be very crucial policy implementations for Thailand. Now I skip this. We look at the income disparity in a country and try to look at the characteristics and look at the nature and pattern of economic growth and also the social dimension of the country. This targets to show that the agricultural sector is the sector that accounts for only 10 percent, actually, a little bit less than 10 percent of GDP about 8 to 9 percent. However, about 40 something percent of employment are absorbed or are allocated in agriculture sector. That is one dimension that shows disparity. And now look at the wages. If you look at the ratio of wages, you can see the red line at the bottom there. So that indicates that wages in the agriculture sector actually compared to the national average are less than 50 percent, but a lot of people are there in the agriculture sector. Again now looking at economic activities, most economic activities are concentrated in Bangkok and the vicinity. And now looking at the income per capita we can see that a central part of the country and then the eastern part of the country and then Bangkok and vicinity, you can see that income per capita increased quite rapidly compared to other regions. And now another dimension we can look at, we compared the minimum wage for those of the minimum wage earners to average wage earners of the country, and you can see that the line is turning down, indicating that actually the disparity between those income minimum wage earners is growing bigger. So then conclusion up to here, you can see that a lot of people are working in the agriculture sector. They tend to earn minimum wage, a lot of them. But minimum wage is so small compared to others or the average of the country. Now one factor underlying wages, underlying productivity is education. Now, in general, I put it there the proportion of employment with a university degree has been on the rise. However, if you look at it, if you compare the red line, for instance, therefore the agriculture sector, that is primary education all over, you can see that more than 80 percent of those employed in the agriculture sector, they are with no education or at most primary school. So those who are earning much less, but about 45 percent of the employed are there. And then for others, time is running out. So if you look at it sector by sector, that also shows very well that you know in terms of education, although university degrees in the agriculture sector had been on the rise, but very slowly compared to those in manufacturing. So you can see the disparity of productivity in between those two sectors. But I'm going to skip the other sectors, so if you have a look you can see very well from those numbers. Whatever output or return in the agriculture sector is less than it should have been if we take distribution of employment into account. And you can see that the output is so small but employment distribution in that sector is so big. So I come to conclusion in terms of the underlying factor for income distributions in Thailand. Perhaps we'll just go through it quickly that concentrations of large land, ownership, an imperfect labor market, and then also a large proportion of the Thai people who do not have secondary education and also in term of physical system. So I'm going to skip that because I said a few words during the time I explained the graph. Now looking at the policy experience for Thailand, In Thailand, the poverty and the distribution problem have been recognized and addressed since the 5th national economic and social development plan that was during 1982 to 1984. Then that came to 5th national plan program to eradicate poverty and income distributions was spelled out and given priority the guidelines were to promote rural development. And then Thailand actually used Korea as the case of example in terms of rural development. And then come to the 6th national plan, continue with rural development, area based development, urban development, and also here in the 6th plan, human resource development were stressed very importantly. And also during the 1980s and 1990s, I put it that the more aggressive incentives actually attract foreign investors to invest in other provinces rather than just Bangkok and vicinity. However, it wasn't a success, because looking in terms of infrastructure, access to infrastructure, quality of infrastructure, and also administrative bodies. All or most of them are located in Bangkok or vicinity. Now perhaps a very important turning point for Thailand would be the 8th national plan during 1997 to 2001 during the crisis period. Here we emphasize an agenda of people centered on the poor and underprivileged. And initiatives decided to provide local communities through decentralization of the government and public participation here. And again, it continued in the 9th plan during 2002 to 2005 that poverty and redistribution focus of the 8th plan to be a more central strategic process. Where if you look at the national agenda you can see very well, competitiveness is there if you look at international dimensions. However, in domestic dimensions, poverty reduction and income distribution and social capital are a very crucial part of the domestic dimension. Perhaps I will end my presentation with this slide. This morning we heard about warm hearts and cool heads. And this one in Thailand we probably call it dual attract development strategies. After the crisis, Thailand moved away from the EAEM, the so-called East Asian Economic Model, which focuses on export-oriented growth supported by foreign direct investment. To have a more balanced strategy and focus more on the second track, the second track you have domestic demand, domestic enterprises. Here we talk about small and medium enterprises and those are the list under the project under the 2nd track that the government tried to put more emphasis on in order to balance. So the benefit of growth, benefits of development would be targeted to the poor and that would resolve, we hope that'll resolve income distribution of the country. In the slide here, the 10th plan which we are going to implement from 2006, in 2007 to 2011 you can see very well, that the development strategy, the first one we're going to improve human society and in order to promote equality in the society. And then economics will become probably less emphasized in the 10th plan that is a restructuring of economy. Again here restructuring to be more balanced and to support more development in the rural area. I put it here, we are in a forum of APEC, trying to study income disparity. Now looking at it from Thailand's perspective, however, international economic policy remains to be important as I mentioned earlier in the first track of the development strategies. So the key word is to globalize and to localize. So that's probably warm hearts and cool heads, I guess. So I would like to end my presentation there. Thank you.

Richard Cooper ***(Moderator)***

Thank you very much. I'm going to need some guidance for management here. We're about 30 minutes behind schedule. Unless I hear from the back what I'd like to do is at least offer you 10 minutes for questions and comments on the four interesting country presentations that we've heard here. Resounding silence, you're not going to get coffee as easily as that. If nobody asks a question, I will ask a question or make a remark. In 3 of the 4 presentations that we've heard, it seems to me that a significant component of disparities of income have an ethnic aspect to it. If you recall Indonesia, the lowest income parts of the country were at the extremes, in the west area and the east. If you recall the chart in New Zealand, the Maori minority along a number of dimensions was significantly worse off than the average. In the case of Peru, it was put in positive terms of the great diversity and heterogeneity of the country but the bottom line is that there are big disparities that run along ethnic grounds. Of the four countries we've been exposed to in the last hour, Thailand is probably an exception to that, but I'd like to ask all of the panelists to comment, and in my own country the United States, on whether there is an ethnic component to income disparities. I'd like all of the panelists to briefly comment on that dimension whether in his or her judgment it is important or is not important and speculate a little bit about the reasons assuming that it is important which could range at one extreme perhaps from systematic social discrimination which takes a variety of dimensions against the minorities, to at the other extreme, cultural preferences for stability as opposed to growth, and in a growing environment not deliberately, quite consciously, as a cultural group not getting on the band wagon, rather preserving as a matter of cultural preference a more traditional environment. So since nobody's mentioned the ethnic dimension, and I know it's politically not correct to do so, but as social analysts it seems to me as this is a dimension we cannot ignore even if after inspection we put it to one side. So perhaps we start at that end of the table.

Discussion

Tb.A. Choesni

Thank you, professor. In Indonesia, there is no difference in ethnicities and social status actually but it is correct that there is a difference when we look at a map of Indonesia. But it is actually strongly related to the special as well as the regional endowment. So in doing that we have done many years, our priorities should more be in isolated areas as well as on border access. Typically, they are kinds of lacking development there. So in our new movement since 1999 when democracy finally come to Indonesia there was a regional autonomy movement so that every single region will have a grant from the central government and it's decided solely by the region to do what cannot be done by regional, for example, security, technology advance, foreign affairs. But most of them are done in regions. And to help the more isolated regions we have a special program. The special program should capture the budget for the programs that the important in central effort, for example, transportation between provinces, poverty. So I think Indonesia is not really a social status different race or ethnicity you know.

Ross Judge

There is a basic ethnic disparity in New Zealand. First of it is partly to due with migration. My understanding of some of the studies in the States is that waves of new immigrants take about 100 years to start looking like the rest of the population in terms of education, employment outcome. For the pacific island group when they immigrate into New Zealand, they were less educated and less skilled and it'll take a few generations to get them up there. Although with the Maori, the indigenous people of New Zealand, it's somewhat the same story in that they were very rurally based until the 1960s. There were large migrations internally of Maoris to the cities. But of course more recent immigrants from Asia who don't show up in the low end of disparities because they've been chosen by the immigration system to be only allowed to immigrate if they will work up for their resources or skills, maybe that's some of the story. There is some discrimination but I don't think it's overwhelming. I mean no one can really narrow it down to show that to be a really strong indicator. There is I think some cultural preference, I don't know if it's very much of deep historical culture but it's more of the cultural communities that have developed. So there are within cities and some isolated rural areas just sort of big communities where a large portion of the people are on government benefits, they're not encouraging the kids to put effort into school. They don't force them to do their homework, or make them to get to school on time. And quite often involved in crime, and that sort of cultural, I mean it's the same for the Europeans in those communities that they put up in the culture. I think the effects are involved.

Now, of course the ethnic aspect, I mentioned one of the things part of our ethnicity and it's a problem how we learn to the sign of policy for some bottom programs that are adequate to the population, for example, in health and education. We have a lot of problems in trying to design adequate systems. Even the way of this thing of having births and the culture accepted, our system should learn about that. Yes, there is discrimination, but still there is a lot of problems with language, having bilingual educations for some areas in order for the children to learn in mother tongue language instead of Spanish, for example, and that kind of ethnicity and history are also reflected in very broad statistics because that's reflecting reality, so we have a lot of data. We have the census but census doesn't reflect that adequately reality and we have a lot of problems there.

Pattama Teanravisitsagool

Thank you, for Thailand the ethnic issue perhaps is not very striking. It more lays the history of a born part of the country in the north, that is the Hill tribe people but like I said it was more like history, then they were located more in the least of the development area and also least education due to beliefs, due to language barriers, and then the problem associated with that was the move from one place to the other. So it caused a deforestation problem. However, during the time here I probably have to mention that the King project initiated by the King of Thailand to improve the quality of life of those people have played important roles in resolving the problem. So education became better in terms of career and in terms of corruption and growth. So the area became more developed, so I think that the issue of ethnic groups in Thailand is improved as far as the Hill tribe is concerned. With the groups in the south, it could be an issue, but perhaps it could be too sensitive to talk about it here. Dr. Chira is here, and I'm not sure whether he would say anything about this.

Richard Cooper *(Moderator)*

Last chance for comments or questions. Coffee time. Let me thank all our panelists on behalf of you for very interesting and informative presentations.

Session III. Sharing Policy Experience Towards an APEC Community

Announcement

Session 3, titled "Sharing Policy Experience Toward an APEC Community" will be moderated by Prof. James W. Dean. Three presentations will be made by Dr. Fraser Cameron, Mr. Joseph Yun, and Dr. Heungchong Kim.

James W. Dean *(Moderator)*

I am going to suggest that, since we are short on time, we extend this session to 15 minutes ending at a quarter to six. Leaving about a half an hour for the final session if we extend the final session until 6:15. Does anybody object to that solution? It means we are here until 6:15 instead of 6:00. We will try to be as quick as possible, and perhaps target 10 minutes presentations. But I would like to leave 15 or 20 minutes for open discussion after the first three presentations.

Fraser Cameron *(Senior Advisor, European Policy Centre)*

Two confessions to begin with. Firstly I am no longer with the European Commission. I was there for 15 years but happily retired from there January this year to run a think tank, the European Policy Center. And secondly, I am not an economist. But having worked inside two large bureaucracies for 30 years: the British government and the European Commission. I have reasonable ideas of the political constraints surrounding people working on economic and social issues.

I distributed my paper. I want to take you through what I consider as the highlights. And I want to start just by emphasizing a couple of points that are not in the paper. One is an obvious one that in terms of the European Union with its 25 member states, it's a much more cohesive unit in terms of less income disparity than Asia, which has vast income disparities. And other than mechanisms that in the European Union as such has used to try and lessen income and regional disparities, is a huge transfer of money each year, from Brussels to the poorer regions. This is known as the cohesion fund. And this amounts to a staggering 14 billion euro a year. And this has gone in the last couple of decades to the poorer countries, particularly Spain, Portugal, Greece, and Ireland with quite spectacular results. And this money is now being reallocated to Poland and other poorer new member states that have joined in 2004. So that's a couple of the main differences between the EU and Asia: greater income disparity in Asia compared to Europe, and the way Europe uses government funds to distribute to poorer regions.

Now people often talk about the European model. In my paper I suggest that though it is often not how it seems to outsiders, there are in fact different models within Europe. People talk about the Anglo-Saxon model, which is rather close to the American model. There is the Rhineland model, where you have France and Germany typically promoting national champions involved in protecting organized labor, also enjoying high welfare benefits, but with low economic growth and high unemployment at the same time. You have the Nordic model, with some of the most successful economies in the world, in terms of Finland, Sweden and Denmark: high taxes, high welfare, high labor protection, and the highest productivity in the world. Then you have the Mediterranean economies, typified by up to 10 percent of a black economy in countries like Italy. And now you have another model coming in, which is the new member state model, typified by countries like Estonia, Slovakia and Slovenia, which are going in for flat taxes, income taxes and a corporate tax of 19 percent; stealing industry away from countries like Germany, which they don't like at all. So there are very different models within Europe, although to outsiders it is often seen as a kind of museum piece characterized by rigidity in terms of labor markets. In my paper, I said that real problems are in the three continental core countries: France, Italy, and Germany. All because of their political weaknesses. That, I think is the message running through my paper. The fact is France is now in paralysis in decision-making. President Chirac, if you know the expression, is toast. He's finished. He can't do anything. Similarly, his prime minister, Dominique de Villepin, who tried to push through a very minor law trying to introduce some labor flexibility and youth employment couldn't manage it in the spring of this year. You may remember the riots in the streets. And so, he had to withdraw it. And the problem of the political system in France is essentially the Elysée and the street. And there is almost nothing in between. And that is the genuine problem. In Italy, you have a very weak coalition under Romano Prodi who used to be my Boston-European Commissioner. I admire Mr. Prodi for his European connections, but trying to hold this coalition together and bring it back to much needed economic reforms in Italy is going to be extremely difficult, because this coalition will only hang together, as long as Berlusconi is there as leader of opposition. As soon as Berlusconi goes, the chance of Prodi's coalition staying, that's alone implementing some of the very tough reforms necessary, is very slim indeed. And then with regard to Germany, Angela Merkel leads again a grand coalition, and this means she can implement some quite radical reforms that she campaigned on. In fact she reversed most of her campaign pledges; she has increased taxes including VAT. And she's now going to throw more money at the health service which is a never ending pit in terms of what German citizens expect and demand from the welfare state. And that's the problem. Because if you have a job in Germany, it's great. If you don't, you are the outsider, you have the real problem. Because the government really doesn't make a big effort to get you in, the Trade Unions don't want to know if you are unemployed. They want to protect the jobs of their members. Therefore, they have won a seven-year moratorium as France and Italy have to keep workers from the new member states out of the European Union. This is why they are also against the further enlargement of the EU. From the fear of competing with rather low-cost labor from Central or Eastern Europe. It was epitomized in the French referendum campaign last year, when you picture this famous Polish plumber, I can tell you having visited France and having many French friends, France desperately needs plumbers. But they don't want them from Poland at the present time, which is the problem. So that's what I was trying to look at in the paper. First is to sketch out the various models that there are in Europe. Look at some of the problems that core continental countries have, particularly high taxes, rigid labor market and very expensive social healthcare. They do recognize that they need to change. Everyone in Europe has signed up to something called the Lisbon Agenda which was set up the year 2000 trying to make Europe the most competitive economy in the world. But we are more than half way there, and nobody believes that target can be met. It's because the member state politicians who sign up to this theory to make these reforms find it politically too painful to actually make these reforms. And still economic decision-making is largely in the hands of member states, not in the European institutions. And so, it is because of political weakness that you find that the Lisbon Agenda is not going to be met. And I've gone through in the paper what are the key points of the Lisbon Agenda: the importance of knowledge, completing the internal market that we just managed to finally achieve after many many years to get a single market for services, and improving the business climate, more flexibility in labor market, and at the same time ensuring the basis as environmentally sustainable.

Now there are lots of good things in Europe. Don't get me wrong. Europe is the world leader in many areas: telecommunication, environment, optics, tourism, etc. But overall, politicians are simply not stepping up and making the reforms necessary in order to even near achieving what they had said themselves of making Europe the most competitive economy by 2010. So I go through this quite a lot in the paper showing where the problems are. I talked about "economic patriotism" which is a new word by Dominique de Villepin. There are lots of cases; I draw attention to some examples. One of them was overtaken just in the last week. And that was the Mittal, the Indian company taking Arcelor, a huge European steel company. Just like the outcry in America when Dubai wanted to take over the ports. We had a similar outcry in Europe when here we had an Indian steel manufacture wanting to take over a large steel company. A couple of days ago in the UK, they sold the British airport authority to a Spanish company. I am absolutely convinced that this would not have happened in Spain or Germany. But Britain actually allowed it to happen there. So there is a danger in this new protectionism. I think that we have to be very careful that the commission keeps watching what the member states are doing so that it does not infringe on the single market, because that is the competence of the European Commission. And if they do that and are tough—I think there's some doubt about whether Barroso is tough enough to do this, then I think we can be tough to protectionism and danger. But we can't really move forward in Europe on any of these issues until we have a new government in France. And that means waiting till Chirac goes in May of next year. Again, I am not criticizing the French economic performance and every sector. France has world-class companies. France and its private sector can beat anyone and it's more productive than many sectors in the United States. But as long as you got this political impasse in France, you are not really going to get anywhere, and similarly in Germany and Italy. I do mention in the paper Sweden as a success story and give some examples of why Sweden is so successful. Particularly getting a consensus, I come back to the political point. Political leadership in Sweden and Finland ensure the citizens know what have to be done to turn around that economy. And that is a good example as which Finland lost dramatically in its trade when the Soviet Union collapsed, the Dutch had similar reforms and of course you all know about Thatcherism during the 1980's in Britain. So these are examples of some countries that have successfully moved to reform them. Then we go on to talk about some other big challenges Europe faces; particularly the demographic challenge. Europe is not making the necessary reforms to cope with that, in terms of pensions and health care. So it's a mixed picture in terms of Europe. In some countries, they are pioneering with different economic forms successfully. But in larger core countries that's where real problems lie. And the jury must be out, we can't see at the moment whether it's going to be successful. There are signs of a modest recovery in Germany and Italy in particular. But this hopefully will encourage… hopefully someone like Sarkozy who will push things through and the coalition and Germany will recognize that it can't go on avoiding these tough decisions. If the politicians have the courage to actually make these changes then the prospects for Europe are good. If not, the prospects are rather bleak in this globalized world. Thank you Mr. Chairman.

Joseph Yun *(Minister-Counselor, US Embassy in the Republic of Korea)*

Thank you very much professor Dean. First of all, thank you for having me. It's very good to be among very distinguished colleagues. Like Dr. Cameron I have a number of confessions to make. For the first among them, I am not an expert in this field. As you can see there is no doctor in front of my name. I work for the Foreign Service Office at the State Department. In fact, I am in charge of the political section there. I must say I am more used to speaking about the missiles in North Korea than income disparities. But, in the past, I have done some work on economic areas. So, let me just share with you some of my thoughts, as well as the thoughts from the Department of State in Washington, D.C. So it will be very much couched in terms of generality and in terms of the policy experience that we had in the United States. I would like to cover a few points in my remarks here. The first point I want to cover is some thoughts on the nature of socio-economic disparity. And then secondly, I will briefly note the state of socio-economic disparity in the United States, and then placing that in the larger context of APEC. Finally, some policy responses from Washington within the United States as well as what may be broadly applicable. I would like to start off with two general observations that show what the mainstream thought in the United States is when looking at socio-economic disparity. First, at the domestic level, what we call the micro-level; mainstream thought in the U.S. is that socio-economic disparities are really part and parcel of a properly functioning market economy that we believe to be a natural byproduct of free and fair competition. Simply put, market economies produce great overall wealth but they also inevitably produce winners and losers. Such factors as education, industry, quality of parenting, cultural issues, social and historical considerations, and dumb luck take part in this great income and wealth disparity. My brother and I grew up in the same environment, same parents, similar education, but he makes a lot more money than me. I think the central factor in here is that belief in the U.S. is there is distinction between equality of results equality of opportunity. We believe that government cannot and should not try to create an equality of results. What they should aim for is the equality of opportunity. We really should not be too rigid. Of course, we want to, in the end, minimize the equality of results. But, I don’t think we can get carried away and see that as the end goal. Socio-economic disparities will inevitably exist. But, they should not be rigid or permanent. I think what most of the U.S. policymakers would be up for is for some of this equality or inequality to be corrected within a short time, perhaps within a fraction of generation. Now, secondly a general comment on a more international level that is again the mainstream thought in the United States, that increasing openness, transparency, and trade leads to great growth and prosperity for all economies concerned. In the short term, countries in transition toward a natural comparative advantage can experience an increase in disparities. But, as history tells us it is very clear that you cannot close your markets, you cannot refuse trade, and you cannot refuse to join the global economy because that would be a certain road to stagnation. Let me just go on a little bit about the inequality in the United States and put that in context of overall APEC economies. Generally, I think we discussed in the previous session about the Gini Coefficient. Generally, a country with a Gini Coefficient of .2 to .3 is considered to be relatively equal in distribution while countries that have a Gini Coefficent of .4 is considered to have more inequality. In the U.S., our Census data indicates that right now the Gini Coefficient is around .47. What is a little worrisome is that since the 1970s, the U.S. Gini Coefficient has been on the increase every decade. In

1970, for example, it was .394 and in 1980, it was .403. In 1990, it was .428. Now it is .47. I think that within APEC, there are, of course, ones who have better income distribution and ones who have worse. For example, of the eighteen APEC economies for which I was readily able to find recent data, only Malaysia, Peru, Papua New Guinea, Mexico and Chile had higher Ginis than the United States. I think Chile was .57. I should note that China is rapidly catching up with the U.S. and it has a Gini Coefficient of .45. When we look at the lower end of the spectrum, Japan has the lowest Gini Coefficient of the APEC economies, at .24. Russia, South Korea, Canada, Indonesia, Australia, New Zealand, and Vietnam also have lower Gini Coefficient than the U.S. As a point of reference, Vietnam's Gini was .37, being the closest to the U.S. Probably what these data suggests is that APEC economies, including the United States, have plenty of work to do in addressing socio-economic disparities. Japan stands out in this regard, having a very stable Gini Coefficient and as one of the only three non-European countries among the twenty nations with the lowest Gini Coefficients. Now, let me go on to a little bit about the current administration's policy responses on how to make income and wealth disparities lower. I think there are several macro tools that the current administration relies on. The first is to lower taxes to ease the tax burden on all Americans in a revenue-neural way, while maintaining the basic progressivism stance on the current tax structure. The second one is the development of what we call an ownership society, in which Americans can build durable wealth and exercise great charge over their financial affairs and retirements. The current administration has really encouraged what we call opportunity zones. These are zones in urban areas that are historically disadvantaged. Another item that should be more emphasized is welfare reform which which gives more incentive to work and remedies some of the debilitating psychology of dependency. Finally, I think that America relies more than other societies on voluntarism. All of you may have recently seen Warren Buffett giving up his vast wealth to create a fund. I think this kind of phenomenon is more commonly seen in the U.S. than in any other country. Finally, let me just mention a little bit about the U.S. approach to these disparities on the international level. What stands out there, is the creation of the Millennium Challenge Account, which was the result of the UN financing for development conference in Monterrey. At Monterrey, the world agreed on a new vision for fighting poverty, curbing corruption, and providing aid in the new millennium. I think with this kind of approach, we will be able to make commitments, and then based on those commitments get the assistance granted. This is probably notable. I think that this is the sudden new departure for the U.S. within the first decade. Of course, the second avenue is that the U.S. has always stressed growth by trade rather than development assistance. This is why we have put so much emphasis on trade ground because optimally, trade and investment will create more wealth than development assistance. Let me just conclude during my remaining time by saying that much more work is needed to be done on reducing poverty as well as lessening income and wealth disparity. I think as members of APEC, we have a special responsibility to the region because this region covers many wealthy countries as well as countries that are still poor. I like to thank you for giving me this opportunity and look forward to your comments.

James W. Dean *(Moderator)*

Thank you Mr. Yun. That was very interesting. I hope that we have time to discuss it. We are going to conclude the presentations with Dr. Kim of the Korea Institute for International Economic Policy. He will talk about policy options tackling socio-economic disparity in APEC.

Heungchong Kim *(KIEP, The Republic of Korea)*

Thank you, Chair. Good afternoon ladies and gentlemen. I am Heungchong Kim from KIEP. I am the last presenter of the last session of today's conference. Please have a little more patience since my presentation will be the last. Fortunately, the material I have prepared is only ten pages long, so I think that I will be able to shorten my presentation. First I would like to give you some points on what I would like to say. My presentation is about the research on socio-economic disparity among APEC member countries, because KIEP is now dedicated to research on the issue. So, the first session is about the background of the research and the conceptualization of disparity and its relations with the goal of APEC. And then, I would like to talk about the ongoing and past works by APEC on socio-economic disparity. Actually, APEC has done so many things on this issue. Lastly, I would like to give policy implications and future direction of APEC activities very shortly and very briefly. So, one of the main goals of APEC is trade and investment liberalization and sustainable economic growth. Widening socio-economic disparity hinders the benefits generated by trade liberalization and economic growth shared by all people in the region. That's why we are now focusing on widening socio-economic disparity. This is why we are now raising this issue. The research aims at deepening the understanding of socio-economic disparity issues. Also, we are now talking about policy responses among APEC member economies. Possibly, we want to explore model policy examples that would help to reduce disparity. And this issue is also very deeply related to this year's APEC Leaders' Meeting which will be held in Vietnam. We can see that the theme of this year's Leaders' Meeting is about going toward a dynamic community for sustainable development and prosperity for gap bridging and sustainable development. Promote community linkages. That's all related to socio-economic disparity issues. So, what is the disparity? And how is it related to the APEC goal? Socio-economic disparity is deeply related to socio-economic exclusion and the isolation of some people and some groups of society. Problems and tensions in widening socio-economic disparity arise when some people in a society are systemically excluded in the virtuous economic system cycle. But, we have to think more about issues about widening disparity versus social immobility. As many presenters already mentioned today, probably and possibly, disparity should not be considered to be so problematic because disparity is something that is very natural and created very naturally. Even widening disparity would not be problematic if we could observe very active and high levels of social mobility, because that kind of social mobility provides people with more chances to go up the class ladder. But, the important thing is that widening disparity is more often related to social immobility. In that case, widening disparity could be problematic. And then, the governments of each member should do something. Disparity is not only an economic issue, we have to think about social welfare, and sometimes, anthropological, political, and security issues. We have to think about every aspect, so this can be very confusing and complex. We can think about disparity at the individual level as something like disparity in income through the degree of skills, years of schooling, job opportunities, poverty, and unemployment. We can also understand disparity in access to information, health care, and education. Also, we can think of disparity in regional disparity, also industrial disparity, or disparity in terms of firm size, where we are more focusing on small and medium enterprises. What is the relationship between TILF and socio-economic disparity? I believe that TILF is undoubtedly an engine for creating wealth in a society, but marginal groups who have the least ability to accommodate themselves to the rapidly-changing environment are more often hit by shocks. We have to think about this kind of part. TILF can lead to economic reform and anti-corruption and these two things may help provide more opportunities to the disadvantaged groups. In that case, TILF can make a positive impact on narrowing disparity issues through anti-corruption or economic reform. Now, let's turn to economic growth and socio-economic disparity issues. From the demand side, the creation of a middle class through narrowing the disparity stimulates total demand which leads to economic growth. From the supply side, widening disparity curbs the full-utilization of human and physical resources available in a society, which leads to a negative impact on long-term economic growth. So, what kind of activities is APEC doing nowadays? Let me just take two examples. The first one is a social safety net and capacity bearing. The next one is about the anti-corruption issue. In the morning session, Professor Chen already talked about a social safety net, so I would like to focus more on the anti-corruption issue. The anti-corruption issue also originated in the mid-1990s. Last year, an anti-corruption and transparency Experts Task Force was created and now its activity is very active. Policy implications from the anti-corruption issue are something like cooperation in the capacity building area among member economies, and anti-corruption measures for the development of small and medium enterprises. Corruption has a disproportionately negative impact on SMEs and micro enterprises. In this regard, many projects and initiations are underway now. Let me take three measures of narrowing socio-economic disparity. The first one is capacity building. We have heard many things about this kind of thing, capacity building. So, let me pass to this issue. The second measure is about economic reform. Economic reform can help the strengthening of linkages. Let me take three examples now listed in the presentation. The first one is that the imperfect capital market, especially in the loan market, disproportionately influences marginal sectors which have little initial endowment. So, economic reform can help narrow down socio-economic disparity. Poor people are hit harder by the low quality of the public education system. So, a failure of a good public education system can disproportionately hit poor people, leading to a widening of socio-economic disparity. The third example is about backward regions. Backward regions are normally more dependent on governmental economic activities. So, government failure would have more influence on backward regions than on richer regions. All of these economic reforms can help narrow socio-economic disparity. The final one is the anti-corruption issue. Corruption produces exclusive vested interests which creates insiders and outsiders in a society. In that case, disadvantaged groups who are excluded in a circle of corrupted insiders cannot get a fair opportunity to gain access to credit, information and other social and economic capital. So, anti-corruption is one of the most important measures for narrowing socio-economic disparity. If you think about social capital, corruption, if the country is corrupted, this means social capital, such as trust and credit are very low which deeply influences economic growth in the long term. Let me close my presentation with two things, policy implications and future direction of APEC activities. Basic direction is restoring linkages in a society. That's the way to narrow socio-economic disparity. I just listed four implications, but we can add some more implications from the research. What is the future direction? APEC has done a lot of work in creating and developing measures to address disparity issues which the Thai professor already mentioned in the morning session. So, why are we working again on this socio-economic disparity issue? Because research aims at re-interpreting on-going work under the criteria of the socio-economic disparity issue in order to develop further policy measures. Fortunately, research aims at creating a new policy agenda to combat the widening of socio-economic disparity. That's all. Thank you very much for your attention.

Discussion

James W. Dean *(Moderator)*

Thank you Dr. Kim. Normally we have only five minutes, but I am going to extend to ten minutes and ask for your questions and comments.

Peter R. Orszag

My question is actually on the U.S. presentation. I was confused by one statement. The tax changes that have been made over the past few years have increased the after-tax income for the middle quintile of the population by 1 percent and for the top quintile of the population by 4 percent. I am just wondering how that change has contributed to narrowing socio-economic disparity. I also don't really understand what easing the tax burden in a revenue-neutral way means?

Joseph Yun

I think there are a couple of points that need to be distinguished here. Number one is that there is a question of "Do you make the pie itself bigger or each individual slice bigger?" The suggestion that tax reduction does not necessarily lead to inequality being reduced as you suggested is correct. But, I think you have to take the dynamic effect into account and in the longer term, that is the goal to both increasing income after tax income of all levels.

Richard Cooper

What does revenue-neutral way mean…?

Joseph Yun

Revenue-neutral means the tax receipts. The overall tax receipts at the end of a certain time frame would be preserved for the amount of tax collected.

Richard Cooper

But, it hasn't been, has it? Is it that the proportions coming from different income groups remain?

Joseph Yun

No, the proportions coming from different income groups will not necessarily remain the same, but, total tax receipt would remain the same.

Richard Cooper

But, I thought that there has been a substantial drop in tax revenue as a percentage of GDP.

Joseph Yun

I don't think there has been a drop in tax revenue.

Peter R. Orszag

Yes, tax as the share of GDP has falled about two percent since around 2000.

Joseph Yun

But, I mean the tax receipt. In terms of dollar amount it has not dropped.

Richard Cooper

It has gone up. I guess because GDP has gone up more than two percent, but that still begs the question of revenue neutrality.

James W. Dean *(Moderator)*

Do we have other questions?

Fraser Cameron

I just want to explode this myth that somehow the U.S. is a free market economy as presented. I lived in the U.S. for many years. The U.S. is just filled with politics. Who shouts the loudest and who twists the arms get the biggest subsidies. If you look at the range of the subsidies the U.S. government puts out to the airline industry, to the farms, and to the steel industry, it is amazing. Take over a little pinch of this free market stuff because there is no one who puts out subsidies more in the world than the U.S. government in fact. When you come to things like Doha, how do you actually manage to get Doha when you could pass a farm bill which calls for twice more subsidies., and for the Europeans, for example, cotton three times as much? The farm bill gets subsidies to U.S farmers twice as much as E.U. farmers. That is what America is actually admitting. But, what I want to take into issue is, if you look at disparities in income, what shocks more Europeans is forty million Americans without any health coverage. That is just not acceptable to Europeans and what happened after Katrina is an example of disparities that most Europeans would find unacceptable. I want to pose the question to Kim though. Has there been any thought in APEC to a development fund, in terms of funds, distributing money to poorer regions. Has anyone thought about that?

Heungchong Kim

O.K. I am not an expert in APEC, but as far as I know, there is no fund like that. As far as I know, there is some movement to create such kind of fund. Basically, we are preparing to launch this kind of project.

Joseph Yun

Let me just make some comments. I take Dr. Cameron's points. Of course, nobody is pretending that the economy is absolutely free. I think that his comments are very perceptive. No one is pretending that the U.S. has no subsidies. That's not the point. I don't want to get into an argument of who has bigger farm subsidies, the EU or U.S.

I think that we all recognize that in order for APEC or the world economy to get better, these subsidies have to be reduced. Nobody denies that. I think you just have been selfish for both communities, whether you see the U.S. or EU to have such exclusive subsidies which essentially put out very unfairly farm products from elsewhere.

Fraser Cameron

What about Japanese subsidies? Or Korea's?

Heungchong Kim

From my point of view, I think that Europe and America are subsidized economies. I think that Africa is a free market economy.

James W. Dean *(Moderator)*

Just because the U.S has subsidies does not deny Mr. Yun's point. In many respects, it is a free market economy relative to Europe in terms of product market regulation. One can start a business or terminate a business and so on. There are many dimensions to a free market economy. On several dimensions, the U.S. does lead the world.

Fraser Cameron

One part of the American dream was the ability of people to improve their economic situation, a sort of intergenerational ability that makes people from poor families become millionaires or become a president. In some recent data of an earlier seminar, actually when you look at the ability of people to be in a higher income level, it seems like actually Europe was having more ability than the U.S. It seems like the American dream might be working in extreme cases like people becoming mega rich, but not for ordinary people.

Joseph Yun

I really have no comments to make for you. What you are saying is that the American dream of people becoming rich may or may not be there. Is it a myth or not? I think that you can probably provide any kind of data you want to support it. There is a cultural element which makes us think that the dream is there, so everyone works toward that dream. Whether that is attainable or not, obviously, it is not attainable for everyone to be among the richest ten percent. That is not the point. The point is that there is mobility. People believe that there is mobility which gives incentive to it. Is it a reality or not? I will ask you. It has certain amount of realism, but it is not realistic if everyone becomes members of the top ten percent.

James W. Dean *(Moderator)*

It is lesser of reality than it was in terms of intergenerational mobility. It is lesser of reality than in certain other European countries and Canada and Australia. Do we have other comments?

Discussant 1

I have a question for Dr. Cameron. You gave very high marks to Nordic mothers. Do you really believe that Nordic mothers are superior to the U.S. mothers? Since, Nordic countries seem to achieving social cohesion and economic dynamism and efficiency. That's my question.

Fraser Cameron

You can measure it in two ways. There are all kinds of economic data that demonstrate that Sweden came up on top of productivity in most major international surveys. People in Europe, when I see my own daughters in their 20s, are putting the quality of life as a top priority. They prepare to sacrifice high salaries to do things that interest them, and provide a sense of worth and engagement, and holidays. When I go to America, I am amazed that they have two weeks of holidays a year. We have six weeks of holidays a year in Europe. I think that contributes to a quality of life in Europe which I think that should not be underestimated.

Joseph Yun

It seems ridiculous to me to say which mother is better. Nordic countries have populations barely reaching 20 million. They are homogeneous and have deep historical roots. How can you compare that development with U.S. development which is multi-ethnic? The white population in the U.S. is now just over 65 percent. It has new immigrants. This year alone the U.S. will take forty thousand refugees. To compare that we have better education data, we have better social cohesiveness, and we have less crimes, we are comparing very different things. How realistic is it for a Nordic mother, a Sudanese mother? Neither is saying that we are better in social development and so on. I think that is a non-issue.

James W. Dean *(Moderator)*

Very good. We are going to terminate the session.

Session IV. Wrap up and Closing

Kyung Tae Lee *(President of KIEP, The Republic of Korea)*

We have about 30 minutes for the wrap-up session. And what I would like to organize in this session is that I will give each of the moderators about five minutes, then you can use the remaining five minutes freely but maybe you can make a very brief summary of the session you moderated. And if you do not have an objection, my suggestion is that you know that the APEC Economic Committee is now undertaking a study on socio-economic disparity in APEC economies. And Dr. Kim of KIEP made a presentation about… His presentation is not the official framework of the study but because he is the research director of this study, in his presentation, his ideas are reflected about how to proceed with the study. So if you have some suggestions or comments on Dr. Kim's presentation, then it would be very helpful for the study to be pursued from now on. And also today's seminar and all the presentation and comments and discussions should be reflected in our study. So in your opinion, if there are any points or areas, which are of importance to the study, then you can mention that. This is only my suggestion and you could add other points that you would like to. And actually the discussions in the previous session were quite interesting. And in my opinion, if we have more time, it would be much better to spend more time to continue the discussions on that topic. But by saying this let me give five minutes to each of you. So let me start with Dr. Fraser Cameron. Yes. Thank you very much.

Fraser Cameron

Okay. If you recall back to the session that I chaired, we had data presented on income inequality growing in most places and an increase in temporary jobs. And they had the strongest impact on low-educated people employed and the lone parents and families with a smaller number of children. I think the data showed similar patterns though they are not the same in every country. There are patterns whether it is OECD we were talking about or North America or Asia. Trade was seen to have a miserable impact on inequality but not as large as something like an increase in technology, although trade might actually speed up and transfer technology. And there was also the sort of star dollars paid to the very top of the income distribution. And also the impact of sole parents, lone parent families. We talk about policies for alleviating the trends and despite some disagreement in the analyses of the trends, there was a general agreement that a comprehensive approach was needed to consider the wealthier policies and the labor market policies and the tax transfer policies. Particularly from the OECD, a prospective view had the policies of facilitating transitions, having an adequate safety net, but trying to work as hard as possible to overcome many disincentive effects and possibly the value of specific trade adjustments. So you got to really watch the incentives here. So things like improved job search assistance were seen to be very positive active labor market policies in that regard. I think the evidence in training is less clear. Good unemployment insurance is importantly good for the overall environment for job creation, for education developing skills. There were clearly alternative roads and I suppose that is what we sort of discussed more in the last session. Less tax, low unemployment, and trying to get a more dynamic economy sort of approach or a higher tax, trying to get a dynamism or more active assistance in having the government division to be pro-adjustment. Then we have seen the difference in the way different countries came out on the index that was presented with the U.S. ranking high on income and education levels and lower on the inequality and insecurity parts of that index, Sweden at the opposite end and Canada and Japan in the middle. I would like to make, given the opportunity, to make a couple of comments. One thing, that no one has discussed so far, is the effect of unpaid work. And spending a good number of hours coming here, I read a paper of work done in the U.S. in trying to add together the value of paid work and the value of unpaid work done in home. And adding unpaid work substantially reduces the level of inequality between the level of poor and rich houses and made a very large difference. And it was not because people on low income did more work in the home and people on high income did less. It was just because that was not true… they did about the same amount of work in the home. But it was more of the impact of the overall number of adding in all the work that is done in the home. But also, I think maybe on some of the trends, there has been substantial differences, substantial changes in the amount of unpaid work. At least being able to use time use surveys in the United States, you know that women have on average worked more in the labor market, in the studies had about five hours more. But it worked about ten to twelve hours less in the home and men had worked more in the home. And I think it was about the same in the labor works. And I think if you have done more research in the area, I really think you should think about unpaid work. And in other works, the comments from the U.S. speaker about the differences between a diverse U.S. culture and some of the similarities in background ethnicity for the European cultures, it is something that we have thought about in New Zealand where having had quite a change now in ethnicity through immigration with one of the results of that will be that there will be less public support for a common social assistance system as a result of having a more diverse society.

Kyung Tae Lee *(Moderator)*

Thank you. Then Dr. Orszag. You have the mike.

Peter R. Orszag

Thank you very much. As you remember from the session that I moderated we heard from Korea, Chile, China, and Japan. I was struck by several themes. In Chile, the "growth of equity" approach seems to have had some early successes, but then runs into, as the speaker suggested, diminishing returns. And I think that would be something we can usefully spend a moment contemplating, because it may indeed be the case that in many countries there are some easy wins and then things get harder thereafter. I was very struck by the effort that our Chinese colleagues are taking to fill out their social insurance system. And from what I understand about the Korean debate, the major question is the right response to globalization, given the situation that Korea finds itself in, whether to reduce or at least maintain current tax rates or to raise them and use the additional funds for social investments. And I think that actually raises a key question which is, in the face of globalization, there is an argument that could be made in favor of reducing tax burdens to increase the attractiveness of locating in that country to both firms and workers. On the other hand are countervailing forces. Globalization does bring more individual income volatility, and it increases the need for investment and education and infrastructure domestically, which requires more revenue. So I think one of the things that we were sort of dancing around with the Nordic model versus the U.S. model is not only the degree of homogeneity of the population, but also the extent of the tax burden and the functions that the government will play in addition to private markets. And I think that regardless of the degree of homogeneity of the population, that is a useful debate to be having.

I wanted to make a couple comments about things that APEC perhaps could do. It struck me throughout a lot of the discussion that measurement issues are still not a trivial concern, with debates about whether India had a higher or lower GINI-coefficient than China coming down, according to our lunch discussion with Professor Cooper, to accounting issues. It is obviously a difficult thing to do but we must remained focused on having good information so that we are not let astray by false conclusions; this seems like a useful emphasis for APEC. Something that did not come up quite as much although we touched upon it in various time involved social norms. In the United States, there is a very interesting paper by Piketty and Saez that suggests over a long period of time -- over the last hundred years say -- the major explanation for shifts in inequality within the United States are shifts in social norms. Basically their major explanation for low frequency longer-term shifts in inequality in the United States is the notion of what is socially acceptable for executives and other high-income workers to earn relative to others. Another thing that I think did not come up enough in the discussion is differentials along other dimensions, such as life expectancy. The life expectancy gradient by socio-economic status has been increasing at a striking rate in the United States. The same thing is happening in the United Kingdom. And there is at least some reason to believe that that is going to continue in the future. I am told that in New Zealand, it happened during the 1980s and 1990s and then potentially was reversed. But it is also I think another dimension about disparity that is worth keeping an eye on.

I guess my final point is just more emphasis on the actual policy levers that are available. We touched upon education, there was some discussion of wage insurance, some discussion of saving, as at least as a buffer, precautionary saving to try to even out some of the fluctuations that occur, health. But if you are talking about governments, the question is what to do. And so for fleshing out those policy levers, what exactly works and what does not, cognizant of the diminishing returns that our Chilean colleague reminded us of what seemed to me to be a fruitful area for joint activity.

Kyung Tae Lee *(Moderator)*

Thank you.

Professor Cooper.

Richard Cooper

I would like to leave you with three key points. The first is that I believe international and indeed much domestic policy should focus on the reduction of poverty and not on the reduction of income disparities. I guess this is my basic disagreement with the Korean president's focus on this. Giving people real life choices has been emphasized now for some years by Amartya K. Sen, which among other things includes an important component of public health and education. So that there is a role for government as well a role for private initiative and risk taking. So that is my first point. Focus should shift on poverty reduction rather than disparity and such. Second point, many speeches today, including my own, referred to the GINI Coefficient. I think that is totally apart from the measurement problems, which are acute. I think that is a totally unsatisfactory way to think about income disparities in society. I think that is an ex-post result even if we measure it accurately. And we need to think about the reasons for income disparity. And I would like to suggest that there are very good, even necessary reasons for growing income disparities and some terrible reasons for growing income disparities. And I think that any study focusing on income disparities needs to make the distinction between to put it over simply good and bad income disparities. Let me remind you what at its core economic development from extreme poverty to extreme wealth is all about. It is moving people out of agriculture into much more productive non-agricultural activities. The poorest countries of the world, Ethiopia, Sierra Leone have 80 to 85 percent of their labor forces in agriculture. On the other hand the richest countries of the world, under 2 percent, have much more productive agriculture of course. The core of development is basically moving people out of agriculture. If as is suggested by the data and was pointed out in several of the discussions of today, rural incomes are markedly lower than urban incomes. That process of moving people out of agricultural and into non-agricultural activities is going to produce a period of process that cannot take place instantaneously; it takes place over decades. It is going to produce a long period of growing inequality or growing income disparity, if you like, as measured by the GINI Coefficient. It will peak out, and then it will produce an equally long period of declining income inequality. That is indeed the fundamental rationale for the Kuznets curve, which has also been mentioned today. So first, the natural process of development is growing inequality followed by declining inequality just focusing on this one variable. Of course, the world is much more complicated than that. I actually suggested that for this part of the world, it would be a useful benchmark, but not the only thing that should be looked at. But that is a useful benchmark. So they are legitimate in that sense. Moreover, I guess I need a technical footnote, which has to do with the way we compare urban living standards with rural living standards. We typically, in the social surveys that are done, compare money income, sometimes imputing value to home-consumed agricultural output. But we do not typically deflate by purchasing power parity index, which would reduce those measures discrepancies significantly. We would not eliminate them. Indeed, taking advantage of them is what growth is all about or development is all about. But it would reduce them substantially so we need to be conscious that there is a measurement problem in comparing rural with urban living standards. And then there are totally illegitimate reasons for growing income disparity. Mostly having to do with bribery, corruption, misuse of authority, exploiting advantages usually created by authorities or by private individuals. In the United States, just contrast Bill Gates who is considered a model for many young people not just in the United States, but also around the world; the wealthiest man in the world. However, his wealth was gained through a socially productive activity with Kenneth Lay, the former CEO of Enron, which was a tremendously wealth-destroying enterprise. And he has just been found guilty of criminal activity in the United States. I was pleased to learn in our presentation that one of the task forces that APEC has is on corruption. And I encourage that task force to pursue its work with vigor. There is a lot of it in this world. I do not speak of Korea. However, in other parts of East Asia, there is a lot of corruption, and I think a lot of the sense of unfairness and public resentment at growing income disparities is in fact resentment about the way the income disparities are coming about. In addition, I mentioned in my remarks China and the growing protest against the misuse of authority in changing land use from agricultural to non-agricultural uses. My third observation is a very general one. But I think it is useful to make it a pervasive character of today's world, everywhere, almost everywhere is change driven ultimately by changing technology of which I consider the growth in foreign trade and investment as a derivative component of the basic driver in today's world. There are two basic drivers. One is population change and the other is changing technology. As far as I can tell, the technology pipeline is full. If you look out ten or twenty years, I do not see any diminution in the pace of technical change. I do not see acceleration either. That term is vastly abused in my view. But I see no change in a continued high rate of technical change. That produces higher incomes, it produces new opportunities, and produces greater choices for a larger number of people. But it also creates turbulence, volatility, a sense of insecurity, and above all a need to change traditional societies and traditional activities. People are concerned about those and they have a right to be concerned about them. You might recall the title of the song, now about forty years ago, "Stop the World, I Want to Get Off." Unfortunately, we cannot, nobody can stop the world. This is a process that is going to continue. Selected societies can, to some extent, isolate themselves, but even then, I think that isolation is not complete. Given that as a background environment, it puts a tremendous premium on flexibility in economies and adaptability by individual households and firms. And that in turn, this is the pronouncement of an educator, which I am, that puts a tremendous premium on education, which has been a common theme throughout the day. The importance cannot be underlined too much. It seems to me, the importance of education in terms of at least creating the possibility of higher incomes and social mobility. I would emphasize in today's world that the education needs to be education and not training. It needs to be education—learning how to learn—because it is not adequate today to learn a skill however well that is going to last a lifetime of work. So the important dimension of education these days is learning how to learn rather than learning specific skills, which run the risk of becoming obsolete. And so that is the main message. Finally, I would just say that I thank that when there are talks about flexibility and adaptability, everything is in detail on both of how we conceive the details and how we actually execute or implement them. Therefore, I thank the role of conferences like this. In addition, I applaud APEC's sponsoring this to exchange information of cross-countries experiments that have been run. And I would like to emphasize that in exchanging that information, which I think is very valuable, one should talk not only about the successes, which we tend to do, but also about the failures. We can learn a lot from the experiments that have been run in other countries and failed as well as the ones that have succeeded.

Kyung Tae Lee *(Moderator)*

Thank you. Lastly, Professor Dean.

James W. Dean

Thank you. The session I chaired gave us the opportunity to just scratch the surface of the very different kinds of socio-economic models that are followed by Europe, the United States, and Asia. I think for example of the choice of labor versus leisure. Dr. Cameron spoke of his daughter and her cohorts who chose lifestyle over income. Now there is a dramatic difference between Europe and the United States in this respect. Hours of work are substantially higher and in recent decades have risen, in contrast to Europe where they have fallen. That does not mean that productivity is higher in the United States. Productivity per person is higher in the United States than France or Germany, but productivity per hour is as high in France, is almost exactly the same as in the United States. This allows the French to make the choice of leisure vis-à-vis labor without the considerable sacrifice. So to some extent, it is a choice and that should be the end of the story. Another choice that Americans make vis-à-vis Europeans in particular is to choose private spending vis-à-vis government spending. Americans like to think that, particularly conservative Americans, that the individual should be empowered to make spending choices with respect, for example, even to such items as education and health. So we have in the United States, private education, we have private medicine, and we have privatized public utilities and infrastructure. And in fact, if you push that logic to the extreme as some American neo-conservatives do, taxes are needed only for the defense, for the courts, for the protection of property, and for the police. And the United States spends a high proportion on defense and even police relative to other developed economies and the courts as well with a very litigious system. So one could only imagine how low taxes would be in the United States if it absolved itself of its defense responsibilities and if the police and the court sectors were streamlined. Americans choose apparently insecurity and inequality in return for prospects of upward mobility. But here there may be certain delusions. I mean the statistics suggest that there is a growing gap between reality and perception. The reality that the upward mobility is not quite what it was a few decades ago in the United States and the perception by most Americans that the American dream is alive and well. But we must remember that there are powerful delusions in Europe as well. Dr. Cameron in his paper referred to, I do not think he said it out loud but, the extreme delusion among which the French suffer that there is compatibility between labor market security and economic growth. This came to a head recently when the Chirac government proposed more flexible hiring in policies for young people in the first two years of employment and this was wholeheartedly rejected. So the French are living in some kind of fairy land with respect to the tradeoff that certainly at the margins exists between security and economic growth. Some features of the U.S. economy, I think are win-win. I think, for example, of the superbly efficient capital markets, of the ability to start a small business, which is unmatched anywhere else in the world. The absence of bureaucracy associated with starting a small business, the ability to attract historically the world's best human capital. U.S. immigration policy, U.S. universities have been able to attract the best students in the world historically and keep most of them in the United States. This is not a policy, which was designed by the state department but which has served the U.S. extremely well. And I do not think that that comes at the sacrifice of anything else unless you believe that the brain drain is draining the rest of the world of its best brains. Dr. Kim gave us, I would suggest, less sense of the tradeoffs and dilemmas and difficult choices within Asia than clearly exist within the United States and Europe. And maybe, that in some senses there are fewer dilemmas in Asia than in Europe. In some Asian countries, there is no need for political consensus. I think of China, but in India there very much is a need for political consensus so some things, which promote growth, some things are done more expeditiously in less democratic countries. But in modern democratic Indonesia, Thailand, Korea, Chinese Taipei, surely there is debate about the kinds of things that we have intense debates in North America and in Europe about taxes, about the levels of taxes, about the progressivity of taxes, tax reductions versus tax increases, about re-distributive transfers of income, about immigration. I mean surely this must come to the forefront of public debate in Japan, for example, which is suffering a demographic decline while either sense that the average age is rising rapidly. There must be debates about the public funding of infrastructure, about where you draw the line between private and public medicine. This is a very live debate in my country, in Canada, at the moment. There must be a looming debate about pension reform in Japan even educational reform and the extent to which private universities could and should be encouraged in this part of the world. Debates about agricultural protection and about agricultural subsidies are very much alive in this country in the context of the Free Trade Agreement with the United States, which is being negotiated, the rice farmers in particular. And the rice farmers in Japan are particularly concerned about the protection of their industries. So I did not get the sense of those dilemmas, controversies, trade-offs, in this part of the world that we face so dramatically in North America that is the stuff of our politics. To some extent, you are protected from that by higher rates of growth and congratulations to you on that. But I guess in future meetings we maybe ought to look more closely at the dilemmas or the looming dilemmas in this part of the world. The more mature economies like Japan are closer to facing those dilemmas perhaps than high growth economies like China.

Kyung Tae Lee *(Moderator)*

Thank you for your very productive comments for every moderator. I think in our study, we have to include at least four major elements. One is measurement, we have to measure the socio-economic disparity of APEC member economies and there were some very useful comments about the measurement issue. And we have to make some diagnoses about the underlying causes of disparity. What are creating causes. And Professor Cooper said that inequality increases as an economy develops, followed by a declining phase. The increasing phase is now observed globally, and then the study by Professor Kuznets was quoted by some presenters, which says that income inequality increases and then declines. But now we are witnessing re-increasing income disparity. And APEC economies are very diversified in the level of their economic development. Some economies are in the early stage of economic development, some economies are in the mature stage of economic development and some economies are already industrialized and entering the post-industrial stage. So I think regarding the causes, we can derive some common causes across APEC member economies, but also there will be causes, which are very peculiar and intrinsic to different individual member economies. And then we have to introduce some policies to deal with this income, the socio-economic disparities of APEC member economies. I think to introduce contemporary policies do not pose serious challenges to us. We can list up all the contemporary policies. But if we try to sum up policy prescriptions or some policy directions for the future, then it will serve as real challenges to us. So it will be discussed among APEC member economies if we go that far or not. So I think that the discussions and comments from the moderators and the previous presentations will be a very useful underlying material for our future study. And before concluding this wrap up session, let me just say one thing, which is that when the world was divided between the market economy and the command economy, then at that time there was a rivalry or competition between the different economic systems. So the capitalist system required a social safety net and a social welfare policy to show that the capitalism also addresses that issue and to defend the capitalism from the emerging threat of the command economy. So I think in that sense, the existence of a command economy was good for the capitalist system at that time. But now the other system is gone and the market system is monopolizing the world. So we do not have a rival, we do not have a competitor. So the market economy is now prevalent globally, and we are witnessing the widening income gap and many people are raising their voices to address this issue. And we expect that more and more discussions will emerge about this issue. And we know that socialism is no alternative. So nobody knows about the alternative. But at the same time, we know that an ungoverned market economy causes increases in the socio-economic disparity, which might be a pulling-the-leg effect for further globalization. So the basic question is, is the current level of income disparity or is the current trend of widening income disparity becoming the real pulling factor for the development of market economy or for the further globalization or for the opening of the global economy or not. And in my observation, that level or the so-called boiling level is different across countries. We do not have time to discuss on the issue but I just want to make some points about this issue. So for all the presenters and the commentators and the moderators, thank you so much for participating very enthusiastically in this seminar and we promise that we will use your contributions as a very helpful foundation for our study. And we will send free copies of our study when it is published. Thank you very much.

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APEC Symposium on Socio-Economic Disparity
Printed in November 2006

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ISBN 981-05-7011-2

APEC #206-EC-04.2

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ISBN 981-05-7011-2
APEC #206-EC-04.2