Almost Steady East Asian Rise: Implications for Labour Markets and Income Distribution

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ALMOST STEADY EAST ASIAN RISE:

IMPLICATIONS FOR LABOUR MARKETS AND INCOME DISTRIBUTION

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Abstract:

The extraordinary growth of the East Asian economies during the last fifty years has drawn attention of the economists worldwide. This paper provides a commentary on this epic story. This paper explores the reasons for the extraordinary growth and analysis specific changes which have occurred in income inequality and labour market institutions during this time span. One main conclusion of the paper that contrary to commonly held belief that the globalization and nature of technological progress has been the main cause of increased income inequality in the period after East Asian crises. We conclude that country specific factors were at least as important, if not more so, in this respect. Analysis shows that in addition to varying pattern of income inequality which has not been observed by other commentators have also been major changes in labour market indicators, including unionization and collective bargaining, employment protection, and minimum and real wages. Last part of the paper discusses policy implications.

Almost Steady East Asian Rise:

Implications for Labour Markets and Income Distribution

I. Introduction

This paper examines changes in income distribution and labour market indicators in the context of highly successful East Asian development during the last half century. The initial four countries involved in this process, namely South Korea, Taiwan, Singapore and Hong Kong achieved exceptional long term growth during the period 1970-2013. Despite this excellent performance, they nevertheless faced severe difficulties during the Asian crisis of 1997–2000, but they recovered much more quickly than had been anticipated. In the late 1990s in the wake of the crisis, leading American policy makers argued that the state directed capitalism of the East Asian variety was unviable in the long run and the Asian crisis was a tragedy waiting to happen. However the countries concerned recovered extremely fast[1].They were obliged to follow the IMF prescriptions in the immediate aftermath of the crises but soon re-established their economies on a different but more secure path.

The story so far is well known. If Hong Kong and Singapore are put aside as being special cases of small city states, this narrative applies best of all to the two East Asian NICs – Korea and Taiwan. In this chapter, in addition to the reasons for their fast economic growth, we wish to explore the main changes which have occurred in two specific spheres a) income equality and b) labour market indicators (together with their interactions) in these as well as in other

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[1]See further Alan Greenspan's testimony to a US Congressional Committee (October, 2008) and Larry Summers (May, 2000)

main Asia-Pacific economies. We start with the East Asian model and comment on its outstanding performance during the period 1970 to 1997. The model, as is generally acknowledged, was successful not only in terms of growth of per capita income but also importantly, in terms of reduced income inequality. However, the model does not seem to have escaped unscathed from the Asian economic crisis at the end of the 20[th]century. Although it helped the recovery process in leading East Asian countries, during and after the crisis this was accompanied by a rise in income inequality and relatively poor performance of labour market indicators. In the last two aspects the performance of Korea and Taiwan was no better than that of many other developing and developed countries.

As we shall see the most important feature of the East Asian model was the role of the state in economic development. This is a hugely controversial subject and will be fully discussed in the following sections. These sections will also consider the question of income distribution and labour market indicators, providing a complete array of statistical data on these and related subjects for the relevant countries. The purpose of these quantitative exercises will be to establish stylized facts in these fields (growth of per capita income, income inequality and labour market indicators) for various countries and country groupings, and later attempt to explain the more important of the observed tendencies. For reasons of space, and within limitations of the terms of this paper, only a few of the main economic issues that emerge in the course of the analysis of this paper will be fully discussed. The final section will sum up the main conclusions of the paper and examine their implications for economic policy in Asia and in the world economy.

II. Changes in Income Levels and in Inequality of Income Distribution: South Korea and Taiwan 1970 - 2013

First we briefly document the extraordinary economic achievement of East Asian countries by taking South Korea and Taiwan as examples. In the 1960s, South Korea was a poor undeveloped economy. More importantly, it was thought to have very meager prospects for future development. The US Congress passed a resolution during that period which suggested that South Korea should not be given any developmental aid but simply humanitarian aid[2]. Yet we see that from a per capita income level of US$ 80 in the mid-1960s, South Korea joined the ranks of developed countries by the 1990s and its per capita income had climbed to over US$20, 000. Similarly, Taiwan's per capita income rose from US$ 700 in 1960s to US$ 20,000 in 2012[3]. The subsequent growth of Korea and Taiwan, notwithstanding the Asian crisis, has been of roughly similar magnitude. For the sake of completeness we suggest that Hong Kong and Singapore also did very well, but as mentioned above, we will not consider their cases here further because of the limited replicability of the experience of these small states to the typical agrarian economies of the developing world. The growth experience of other Asian countries will be examined in the next section together with other related data.

III. Quantitative indicators of East Asian Miracle

Having looked briefly at the performance of the fast growing East Asian countries we now provide statistical data on economic performance of other countries. We present here a statistical profile of the Asian countries with
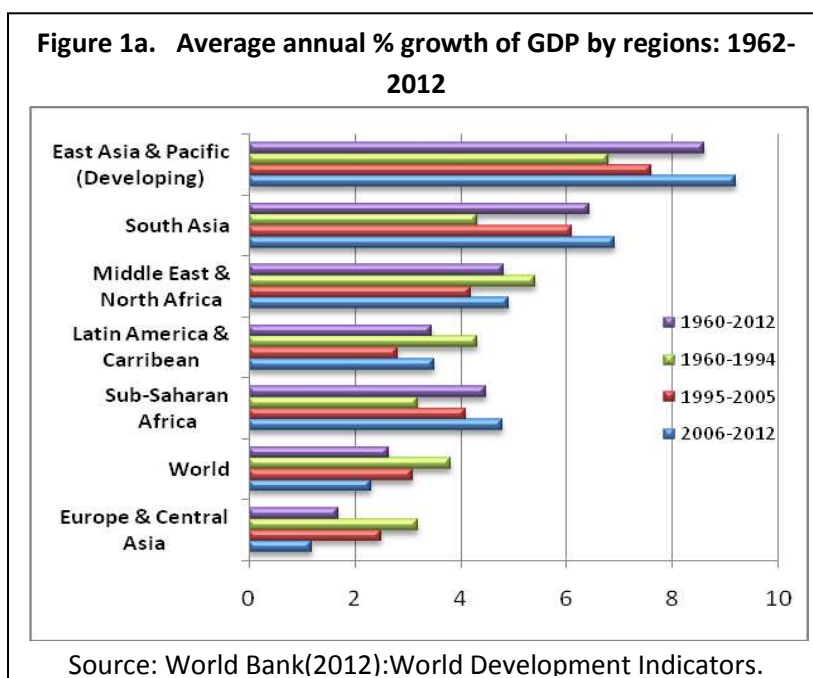
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[2]See further Helen Hughes(1988; 1995; 2003)

[3] Lawrence Lau(2002); IMF (2012)

respect to the following variables: a) long-term changes in per capita income, b) data on income inequality both before and after the Asian crisis, c) similarly changes in labour market indicators in the wake of the Asian crisis. We also give data on income equality and labour market indicators in the period before the Asian crisis. We then give similar figures for the post-crisis period and establish that income distribution became more unequal, and the labour market indicators deteriorated.

However reader may like to note that if he/she is not interested in detailed statistics, he/she can skip the long section and goes straight to the conclusions which are summarized at the end of this section.

3.1 *This section will* *report changes in per-capita income for the second, third and fourth generation of Asian countries. However it will also report differences in the growth rates of per-capita income for selected decades for Asia, Latin America, Africa.*
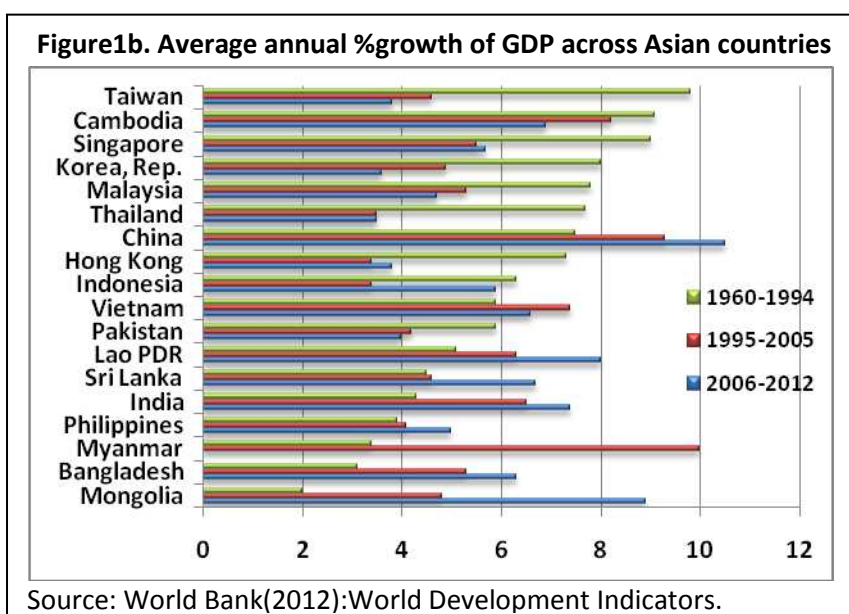
The East Asian economies with an impressive annual growth of 7.2% over the past half a century from 1960 to 2012, has eclipsed the growth in other regions of world (Figure 1a). The average growth rate of the East Asian countries was more than double of the

Figure 1a.   Average annual % growth of GDP by regions: 1962-2012

Source: World Bank(2012):World Development Indicators.

growth for the world as a whole as well as for the sub-Saharan economies. The region continues to maintain its edge over other regions during three sub-periods as well. East Asian economies are followed by the South Asian regions, which was growing at the same pace as Latin American economies during 1960-94. However, during the last two decades since 1995 the growth in South Asian countries surged further ahead of growth in most economies including the Middle East and North America, and Latin American and Caribbean economies.

The success story of the Asian economies followed a 'Flying Geese' pattern with Japan as the leading goose. It was followed by the first generation tigers, South Korea, Singapore, Hong Kong, and Taiwan, recording average 8.5% growth a long period 1960-1994(figure 1b) compared with 3.8% growth for the world as a whole. The four Asian tiger economies were followed by other economies in keeping with Flying Geese pattern of structural changes as the more advanced countries lost their comparative advantage in cheaper goods. The less advanced countries were able to produce them because of their lower wages. This pattern of development seems to have dominated the East Asian and the South Asian countries in particular.

Recently third generation fast growing economies Cambodia, Loaos, Mangolia and Vietnam also

Figure1b. Average annual %growth of GDP across Asian countries

Source: World Bank(2012):World Development Indicators.

joined the Fyling Geese pattern of high economic growth. With dramatic high growth, China and India two very large economies of Asia, also recorded historically unprecedented high growth during the last two decades.

3.2 This section will explore further the income inequality profile of Asian countries including cubic regressions. The outstanding feature of inequality in table-1 is that the Gini coefficient either remained the same or rose up slightly in some countries up to early 1980s. However income inequality in Japan, before taxes and transfers, has experienced a greater increase. The Gini coefficient increased from 35.5% during early 1970s to 40.3% during 1995 and to 48.8% during 2009. Similar dramatic rise in Gini coefficient were recorded in Hong Kong and Singapore, whereas in 1970-1990 income inequality fell in some countries notably Singapore and South Korea. It rose slightly in other countries. On an average Gini coefficient fell 0.1% annually in the first generation economies during 1970-1990. The coefficient rose by 0.8% per annum in these countries between 1991 and 2010.

In the second generation economies the table reveals dramatic contrast with the high performing East Asian economies. There was general decrease in the Gini coefficient for the second generation economies. An important point which is not much commented in the literature is that the Gini coefficient fell at an average rate of 0.2% in 1970-1990 and by 0.5% in 1991-2010. Received wisdom is that all the first and second generation economies recorded an increase in Gini Coefficient between 1998 and 2010. However the correct picture in that the second generation economies recorded an overall fall in Gini coefficient in period 1996-2010. There was also an increase in Gini coefficient in many third generation economies as well as in India and China. Inequality
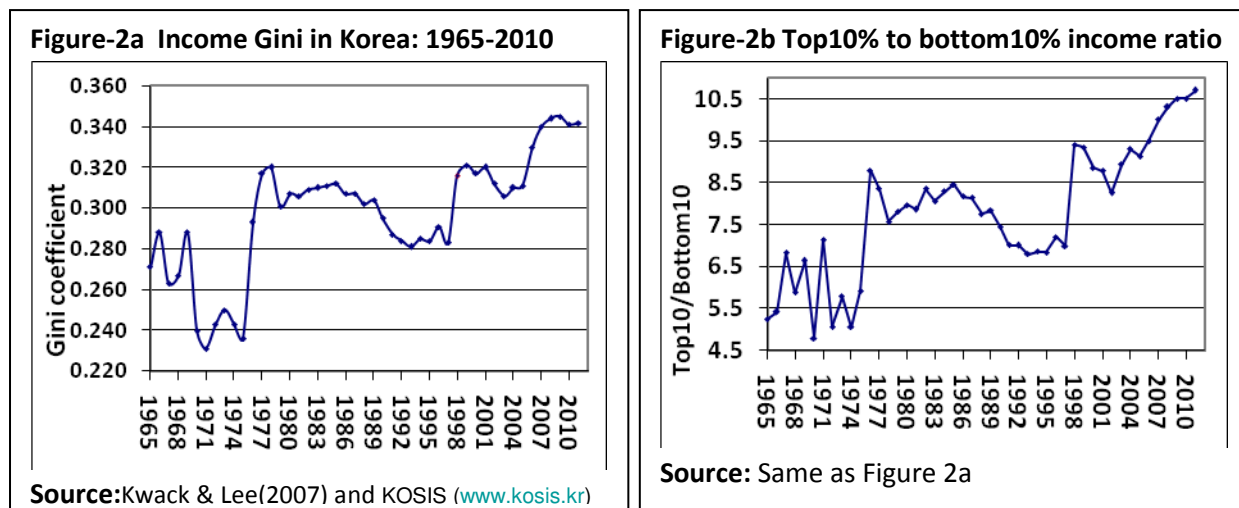
rose dramatically n China from 27.9% during 1970 to 32.7% in 1980 to 37.9% in 1990 and to 47.5% in 2012.

It is important to note that some of the observed changes in table-1 are due to substantive factors affecting various economies; other than due to purely inter-country differences in the definition used to measure inequality. For example, India's better performance than that of China in this respect in the entire region is the fact that Indian figures are based on consumption expenditure whereas for most of other countries per capita income is the basis of calculations.

The overall pattern of changing income distribution is further corroborated by the information on the relative share of the richest 20% to the poorest 20% in the income distribution in Table-2. The 20/20 rich/poor gap was comparatively stable during 1970-1990 but widened thereafter. Comparatively income inequalities widened more sharply at the top and the bottom than in middle income classes, as growth on top-bottom quintile ratio rose at higher pace than in term of Gini ratio. The widening of the rich-poor gap occurred more rapidly in the first generation economies than what was captured by the Gini-an overall measure of inequality. In the second generation economies, the rich-poor gap declined but it is still very large compared with the rich-poor gap in the first generation economies. Gap is comparatively small in rest of the Asia Pacific countries with exception of China, Sri Lanka and Fiji where it is catching up with the second generation countries. For all countries taken together, inequalities at top and bottom have widened more sharply than at the middle, as the top-bottom quintile ratio widened at double the annual growth of 0.55% compared with average annual growth of 0.28% of Gini during 1991-2010. Gini and 20/20 rich/poor ratio suggest the increasing polarization of income

distribution at the top and bottom of the income distribution in most of the Asia pacific countries in general and East Asian first generation economies, China and Sri Lanka in particular.

Do the changing income inequalities validate the Kuznet's inverted U-curve hypothesis? It is not valid for the long term changes in income distribution in South Korea. Evidence suggests that inequality in terms of Gini coefficient first rose from 0.271 in 1965 to 0.320 in 1978, declined thereafter to 0.283 in 1997,

Figure-2a Income Gini in Korea: 1965-2010

Source: Kwack & Lee(2007) and KOSIS (www.kosis.kr)

Figure-2b Top10% to bottom10% income ratio

Source: Same as Figure 2a

rose to 0.316 in 1998 and peaked to 0.321 in 1999 (in the wake of the East Asian crisis) declined a little bit thereafter but again began to rise and reached 0.345 in 2008 (Figure 2a and 2b). Contrary to the inverted U-curve hypothesis, the 35 years of income distribution pattern seem to follow a cubic form hypothesis. The inverted U-curve has raised its tail in the wake of the Asian financial crisis of 1998 and subsequent to global economic crisis of mid-2000s. In fact the econometric results also reject the inverted U-curve relationship and validate the cubic functional relationship between income inequalities and per capita income in Korea[4] (Appendix-2).

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[4] See estimated regression in Appendix-2. The best results are obtained by including the cubic term in the regression rather than linear and a square terms. R^2 increases from 0.45 to 0.55 on including cubic per capita income term in the quadratic Gini-per capita regression.

3.3 It may be noted that some analyst prefer to regard labour market indicator as another measure of income inequality. This section will comment on the labour market indicators for a few Asian countries before and after the crisis. We will report whatever data we have been able to collect on this subject.
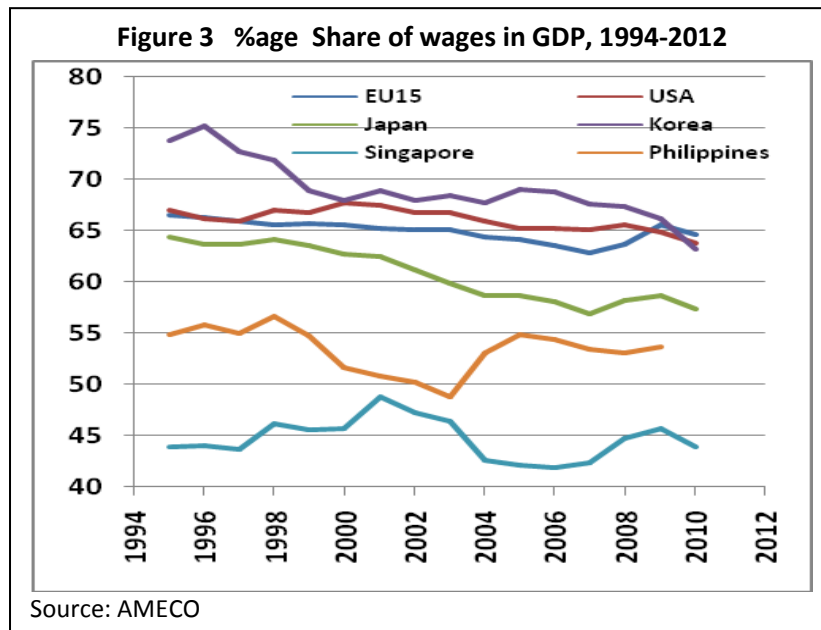
Figure 3   %age Share of wages in GDP, 1994-2012

Source: AMECO

Recent sharp rise in income inequalities are accompanied by significant changes in the labour markets. Following liberalization, globalization and rapid technological changes, and weakening of the labour market institutions (LMIs) adversely affected the low wage earners. Consequently, share of wages (adjusted to compensation) in gross domestic product (GDP) declined almost in all countries since the financial crises in general and 2005 in particular (figure-3). In fact the decline in wages in East Asia was much sharp than occurred in 15 countries of European Union (EU-15) and United States. Accordingly, income distribution shifted from labour to capital and finance, leading to widening gap between the wage earners and the rest.

Evidence from Korea shows the lopsided growth of households and corporate incomes during the post liberalization regime. While the growth in national income was equitably shared between the household and the corporate

sectors as both were growing around 8.1% for both the sectors over pre-crises 1975-97 period. However during the post-crises 1997-2010 period, while income growth for the household sector decelerated to 2.4% whereas it accelerated sharply to 16.4% for the corporate sector(figure-4). Same is more or less true about rest of the East Asian countries as is evident from the steep rise in income share of the richest 10% in Japan, Korea and Singapore. The share of the richest 10% was almost stable and around 30% during 1980-95, increased sharply to more than 40% in these countries by 2010. The rise was shortly disrupted during 2005 but was again back to same rising track in the very next year(figure 5).

Figure-4 Growth of household & corporate sectors income in Korea: 1975-2010
Source: Kang and Lee(2012)

Figure-5   %share in income of the top 10%
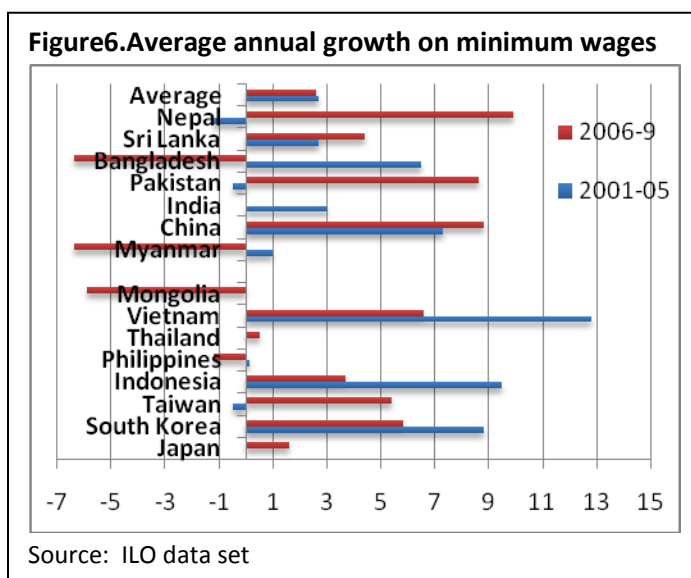Source:OECD data base
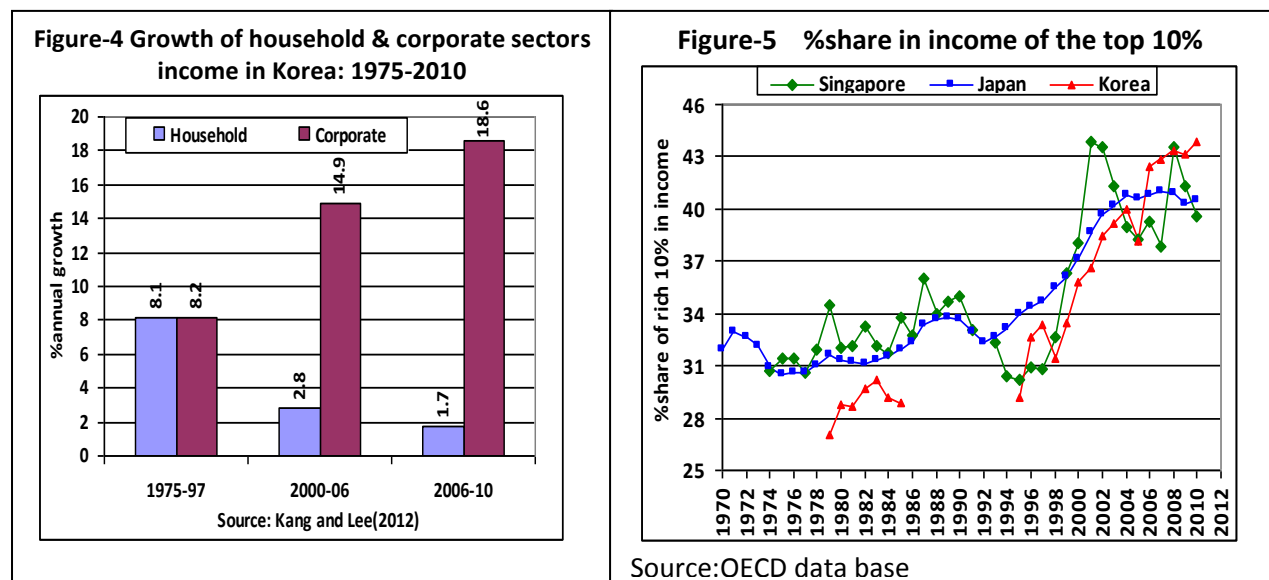
We consider further the question of real wages of workers in Asia Pacific countries. The results reported in Table-4. The table indicates that average real wage growth between 1984-1994 was 9.4% per annum. It fell to 2.0% in 1995-2011 and to 1.6% during 2005-2011.

The dramatic decline in real wages after 1995 is evident from the Table. The situation of continuum fall in real wages is not reversed till 2011. China and India are exceptions to the phenomenon despite slowdown in their economic growth in the post-global crises. It may be suggested that in India, implementation of assured 100 days employment at the minimum wage rate to the rural poor under MGNREGA and its overall impact on the labour market seems to have mainly contributed in maintaining the wages.

The outstanding feature of table 4 is the figure for China; which shows relatively little deceleration in growth of real wages in the period after 1995. Real wages in China rose at 12.7% per annum during 1984-1995, declined marginally to 11.4% pa during 1995-2011 but recovered to 12.1% pa during 2006-2011. The figure may be contrasted with those from other countries in table-3. The striking wage rises in China need comment. The explanation for the phenomenon does not seem to lie in economic reasons but rather a comment on political economy of Chinese development. During the last 10 years or more the Chinese leadership was involved in the reform of the contract system of labour. This includes workers rights including a number of features of the western labour laws. The leadership felt that it would not be wise to reduce the growth of real wages at the time of such politically sensitivity (see further Park, 2013).

Wage deceleration apart, the last two decades also witnessed widening of wage inequalities. The 90-10 (top to bottom percentile) male wage differential in South Korea first declined from 4.1 in 1984 to 3.2 in 1990 but rose to 3.7 in 2000 and to 4.7 in 2008-second highest growth of wage inequality next to United states among the 12 OECD countries (Machin and Reenen, 2010).

What happened to the labour market institutions during the recent setbacks to the labour wages? Information in figure-6 on growth of real minimum wages shows that at least stagnant minimum wages is not the culprit. With exception of three countries, Philippines, Mongolia, and Myanmar, minimum wages received upward revision in rest of the Asia Pacific countries. Prima facie the set back to labour earnings cannot be attributed to stagnant level of minimum floor wages to the workers. However, there always remain a scope for practical side of the story, *de-jure* minimum wage and *de-facto* minimum wages. In fact brings out that the Korean labour market is afflicted with its duality-core and periphery. While the core

Figure6.Average annual growth on minimum wages

Source: ILO data set

constitute workers in public sector and large corporations, mostly unionized, enjoys high level of employment protection and covered under the social safety nets(Grubb, Lee and Tergeist, 2007). In contrast, periphery of Korean labour market mainly constitutes irregular workers in SMEs and/or services sector with low job security and mostly excluded from protection mechanisms and social safety nets. Therefore, Korean experience shows that with inadequate coverage and poorly implemented and complied with legislations, it may not have the desired impact on the low-wage earners. Despite relative increase in the real minimum wage rate, share of the workers earning below the minimum wage in Korea has increased from below 2.0% in 2000 to about 12% (around 2 million workers) in 2010 (Cheon et.al; 2013, p85). Effective

labour union can play a watchdog role in enforcement of not only the minimum wages and other labour market legislations but also in centralized wage bargaining and protecting workers against market shocks.

Changes in unionization of workers in the Asian countries, however are not very encouraging and presents a mixed picture across countries (figure-7). The magnitude of union density varies considerably across countries from a low of 2.1% in Thailand, 3.2% in Singapore to 37.3 % in Taiwan, 41.9% in India and 78.6% in China. Furthermore, labour unions suffered serious reverses in Singapore, Korea, Philippines and Thailand where their density has been reduced numerically to less than 10 percent. Evidence from econometric analysis for 21 OECD countries, Checchi and Garcia-Peňalosa (2008) found union density having strong negative correlation with union density. No specific pattern is discernable across Asian countries as increasing inequality in Hong Kong and Taiwan and China co-exist with rising union density. Nonetheless, widening income inequalities weakening of labour unions is matter of serious concern in some East Asian countries where numerically they stand marginalized. De-unionization of workers apart, evidence compiled by the OECD indicate similar weakening of the employment protection legislations. For example, index of strictness of employment protection-individual and collective dismissal- of the
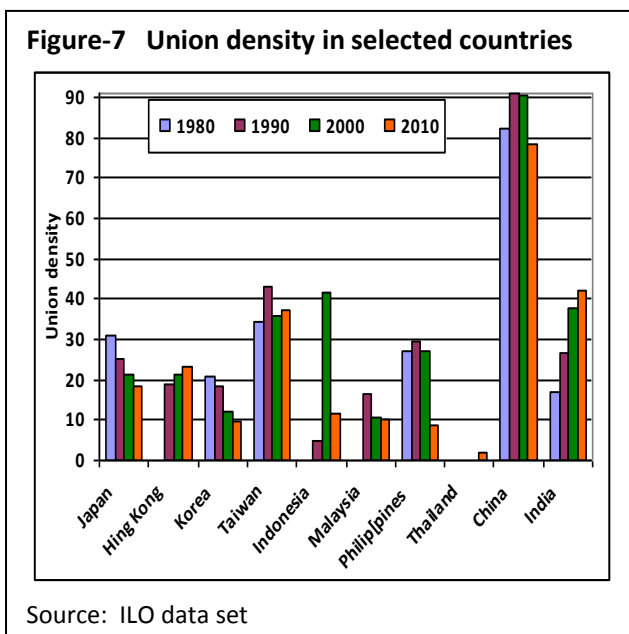
Figure-7   Union density in selected countries

Source: ILO data set

regular contracts for South Korea declined from 3.04 in 1990 to 2.37 in 1998 and for Japan it declined from 1.70 in 1990 to 1.37 in 2007[5].

Figure-8 shows per cent of the wage employees covered under the collective agreements.Limited selectiveinformation availablein this contextreveals the poor status of collective bargaining in these countries vis-à-vis Australiaand Canada. Again no common pattern of the income inequality and collective bargaining is visible. Comparatively Singapore exhibit both relatively higher and rising
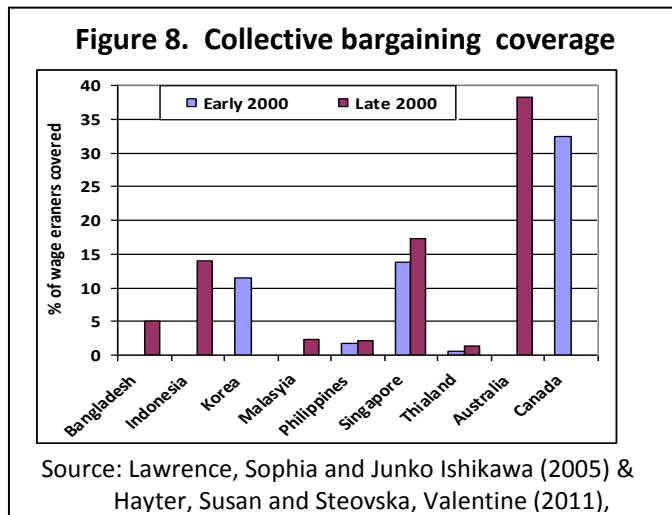
Figure 8. Collective bargaining coverage

Source: Lawrence, Sophia and Junko Ishikawa (2005) & Hayter, Susan and Steovska, Valentine (2011),

inequality along with increasing collective bargaining.

The indicators of labour market institutions (LMIs) across Asian countries signify the poor status and a move towards their further weakening overtime in most of the countries. The evidence so far is inadequate to correlate the LMI dynamics with the rising income inequalities in these countries. Nevertheless, developments on some other accounts along with the LMIs contributed to deterioration of labour markets in these countries. One such outcome is the
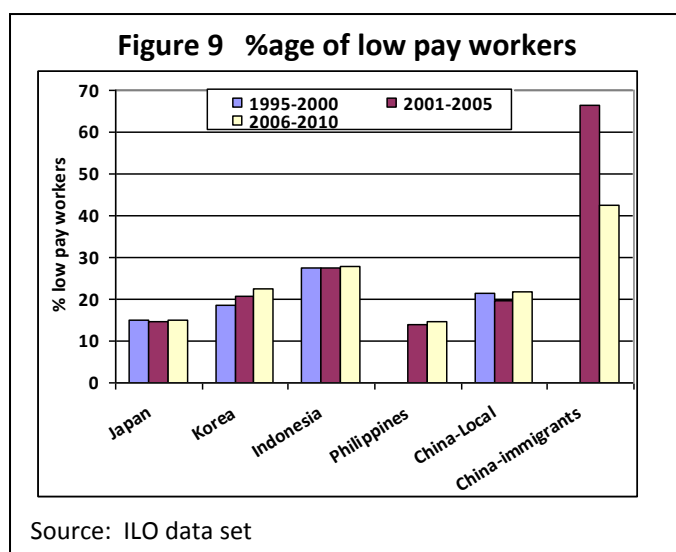
Figure 9   %age of low pay workers

Source: ILO data set

rising proportion of the low pay workers in these counties during the post crises period (figure-9). Korea is a specific case having experienced a significant rise in low pay workers from 18.7% during late nineties to 20.5% during earlier half of the new millennium to 22.4% during its last half. Proportion of low pay workers exhibits a big gap among the local Chinese and immigrant Chinese (from other than present work places). This is basically due their differential labour market regulations for local Chinese and immigrant Chinese workers.

It is now well accepted that public spending on social protection are key to protection of vulnerable segments of the society and hence in equitable growth of the economies. Nakamura (2013) argued that social spending by governments is a complex process determined by the nature ruling parties, incentives for provisioning of social services, political market imperfections, preferences of the median voters, and maturity of the democracy. Japan is odd-man-odd with exceptionally very social spending that constitutes 18% of its GDP(figure 10). Very high level of social protection is one of the key factors that enabled Japan to contain rising market income based inequalities by 31% in 2010. On the other hand it can be argued that the government for its political reasons felt obliged to raise the social expenditure. Plausibly, part of this pressure is to be from the Breton Woods institutions. With exceptions of Japan and Korea, other Asian countries has allocated very low amount on the social
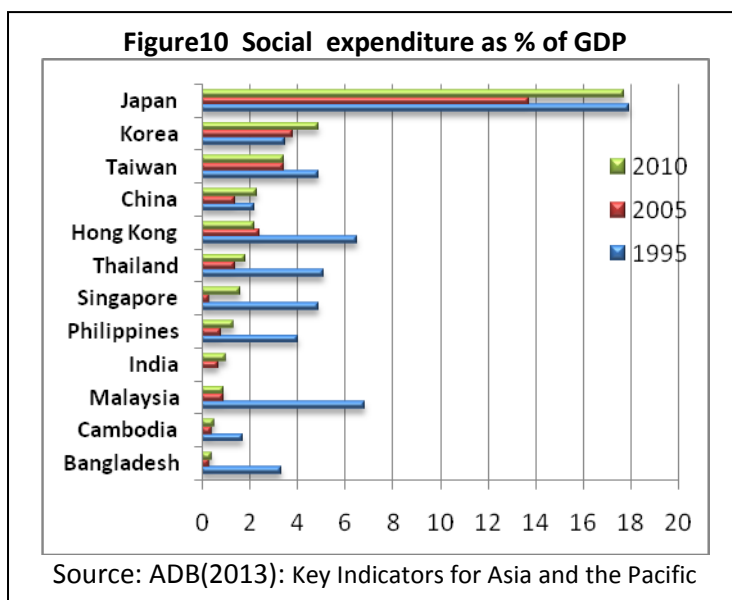
Figure10 Social expenditure as % of GDP

Source: ADB(2013): Key Indicators for Asia and the Pacific

expenditure. Furthermore with exception of Japan, Korea and China, social expenditure in other Asian countries declined sharply overtime. Deterioration in income distribution in some of these countries in general and that of low income vulnerable in particular may be partly due to dwindling public allocations to social expenditure in Asia. Reason for decline in social expenditure in countries other than Japan and South Korea is an important question which will not be taken up in this paper.

Section conclusion:

After a long journey through statistical data on income inequality, labour market indicators and changes in these variables overtime, we are in a position to sum up the main conclusions of this section.

1. Our investigations confirm some points, already reached by a number of scholars; our results however contradict other contributions. The results confirm that there was a relatively little deterioration in income distribution in Asian countries in the period before the Asian crises but there was an almost universal rise in income inequalities in the post Asian crises period. The results are sensitive to the time period chosen for study, the definition of income inequality and other attributes of the income distribution system and the labour market.

2. Recent changes in income distribution across Asian countries do not support the Kuznet's inverted-U curve relationship between inequality and level of per capita income. On the contrary, long term income distribution in South Korea depicts cubic relationship. Detailed econometric analysis for South Korean income distribution arrived at similar conclusion. The

reason for choosing South Korea for this exercise is that it is the focus of this paper and has also available long time series information.

3. The deterioration in Income inequalities has mainly occurred at top and the bottom of income distribution in the relevant counties in the post Asian crises period. Widening rich-poor gap increased polarization of income distribution in most of the Asia pacific countries, particularly among the East Asian first generation economies, China and Sri Lanka. This finding supports the Palma's suggestion of polarization of income distribution in the recent past.

4. The second generation East Asian high performing economies present a contrast with the high performing first generation economies from that region. In contrast to rise in inequalities in the later group of countries, income inequalities declined in the former economies even during the past two decades. Our evidence does not support the general perception that the globalization and nature of technical progress among other factors has been the main causes of increasing income inequalities. However there is clearly role for country specific factors since the second generation economies were also subjected to the similar causes but did not engender similar outcomes. It is important to recall that income distribution in the four fast first generation economies followed a particular path, which does not seems to be repeated by the next generation economies. This has obvious policy implications, which will be taken up in the concluding section.

5. Recent rising income inequalities are accompanied by significant changes in the labour markets of the Asian economies. De-unionization of workers, low collective bargaining, weakening of employment protection and social protection mechanisms are common characteristics of the labour markets in most of the Asian countries. Weakening of LMIs accompanied by sharp deceleration in real wages, widening wage gaps at the top and the bottom of wage distribution and rise in proportion of low paid workers in most of these economies. Even significant rise in minimum wages proved ineffective to stem deterioration in labour conditions.

IV. Favourable initial conditions and role of the State in the East Asian Miracle

(a)   Favourable initial conditions: Four Asian tiger economies in general and South Korea and Taiwan in particular aftermath of the World War II was poor and highly volatile both economically and politically. Nonetheless, certain policy initiatives undertaken during early 1950s and certain favourable conditions prevailing initially contributed immensely for subsequent take-off and spectacular high and equitable growth. These include sweeping land reforms, higher initial education, and massive economic and military aid/assistance. For example, to begin with in 1945, Korean agrarian structure was highly polarized with 48.6% landless households, 2.9% big farmers owing 64% of land, and 65% land area under tenancy cultivation. The land reforms based on the principal of "Compensated forfeiture and non-free distribution"wiped out the landlords as a class, provided land rights to 1.6 million erstwhile tenants and by 1956, 51% farmers owned 65% land with

average size of 1.1 hectares (Putzel, 2000, pp 5-6). Bonds issued to landlords as compensation for forfeiture were used for industrial investment and many of them switched to manufacturing. There is now wider consensus that the reforms created a stable political and economic environment by earning support for the authoritarian regime, laid the foundation for subsequent success of agricultural productivity programmes and hence raising farm income, promoted high demand for and fast rise in middle school enrolment in the country side, augmented supply of educated skilled labour force to expanding industries, and expansion of the domestic market for growing industries. The reforms led to redistribution of wealth and lower income inequalities.

With mere 22% literacy in 1945, education expanded rapidly in Korea and by 1970 school enrollment rate exceeding 90 percent. In this context, many other Asian countries like India are still way behind what Korea already attained in 1970. Like the primary enrolment, subsequently similar trends witnessed the middle, high schools and tertiary education. Expanding education not only met the ever expanding demand of trained educated workers in industry but also paved the way for upward mobility of the workers on income ladder and spatial mobility to Seoul and other urban agglomerations and hence in containing the income inequalities.

Massive inflow of foreign assistance/aid, mainly from United States, was the third important initial condition that prepared a strong foundation for the later take-off of both the Korean and Taiwanese economies. Between 1946-1975, total US aid obligations for economic and military aid to South Korea and Taiwan amounted US$69.15 billion and US$41.81billion (in 2011 US dollar)

respectively (Gray, 2013, p.18). Foreign resources financed foreign exchange deficit and facilitated imports, stabilized prices, provided additional revenue to governments for investment and building infrastructure without putting additional tax burden and inhibiting production incentives, build confidence to local and foreign investors, financed and facilitated technology transfer. For example, between 1953 and 1960, about 74% of South Korean investment was financed by foreign aid, foreign aid constituted about 80% of commodity import from 1955-1960 and 17% of Korean GNP in 1957 (Frank et.al. 1975, p12).

(b) Role of the State in the East Asian Miracle

It is today widely accepted that the state played a major role in achieving the fast growth of the East Asian economy. However, this acceptance is a comparatively recent development. Neoclassical economists, notably those from the Bretton Woods institutions misread East Asian history and denied the role of Government in creating outstanding developmental success. As late as 1988 Balassa(op. cit)argued, "The above remarks are not meant to deny the role of government in the economic life of East Asia. But, apart from the promotion of shipbuilding and steel in Korea and a few strategic industries in Taiwan, the principal contribution of government in the Far Eastern NICs has been to create a modern infrastructure, to provide a stable incentive system, and to ensure that government bureaucracy will help rather than hinder exports". This position of the orthodox economists became increasingly unsustainable in the light of new research which acknowledges the deep involvement ofthe state in all spheres of the economy. However it is necessary to point out that there is a revisionist school of historians which again deny that state led industrial policy had been successful in East Asian countries. Therefore, controversy which seems to have been settled about a decade ago

concerning the subject has resurfaced.However, it has not been a particularly serious discussion until now.

The basic East Asian model consists of state industrial policy and a strategic openness to the world economy, rather than a close integration. The competition policy was used in countries like Korea and Japan to enhance industrial investment instead of lowering prices for consumers. The state both encouraged competition for expanding industries and discouraged it for declining industries. The East Asian model consists of an increasing combination of cooperation and competition in the implementation of industrial policy. Korea may be thought of as being an example of the kind of transformation which the East Asian model brought in its wake. Other countries, specifically Taiwan and Singapore, essentially followedbroadly state directed industrialization and achieved extremely successful development. In this context it must not be forgotten that the leading exemplar country was Japan. During the period 1950-1963, when Japan was more like a developing economy than was the case subsequently, the Japanese economy achieved historically unprecedented growth during this time span. Its manufacturing production rose at a phenomenal rate of 13 % per annum (pa),itsGDP at 10 % pa and its share of world export of manufacturing rose by a huge 10 percentage point. However, during the last 20 years the Japanese economy has beenstagnant. Whether this is inevitable in an East Asian model of the kind followed by Japan is a mute question. It will only be answered by the future course of economic history.

Japan introduced the 'Flying Geese' model to the East Asian countries, which involved continuous upgrading of Japanese production and its space being taken by countries which had lower wages. The same kind of model appears to

be applicable to Korea itself today. The Korean foreign direct investment (FDI) in Vietnam and North Korea is exceeding the net FDI inflow into Korea. Implications of the phenomenon remained to be explored. The Japaneseexperiment appears to have worked reasonably well. The question is whether the Korean Flying Geese will be as successful from the Korean point of view.

There has been some convergence of views on the broad description of the basic East Asian model. There is general agreement amongst scholars on the following specific points:

1. A close relationship exists between government and business where the government does nothing without consulting business and vice versa.

2. Many interventions are carried out through a system of "administrative guidance" rather than through formal legislation.

3. The relationship between the corporation and the financial system in countries like Japan and Korea has also been very different from that of the US and the UK.The former countries have followed, for example, the so-called main bank system which involves long-term relationships between the corporations and the main banks. This enables Japanese or Korean managers to take a long-term view in their investment decisions. The managers are not constrained by the threat of hostile take-overs on stock markets as is the case in the Anglo-Saxon countries.

4. There are differences in the internal organization of East Asian corporations compared with those of the US and the UK. The former involve co-operative relationships between management and labour,

epitomized by the system of lifetime employment. This implies considerable imperfections in the labour market.

5. As for the competition in the product markets, such competition is not regarded by the East Asian authorities as an unalloyed good. Unlike in countries like the US, economic philosophy in the East Asian countries does not accept the dictum that "more competition is better". The governments in these countries have taken the view that, from the perspective of promoting investment and technical change, the optimal degree of competition is not perfect or maximum competition.The governments have therefore purposefully managed and guided competition; it has been encouraged but also restricted in a number of ways.[6]

6. The firm level model which is used in South Korea shares many characteristics which is more akin to typical organizational firm in the developing world rather than with advanced countries including Japan.

There has been one important area where Korean economy has not succeeded since the Asian crisis. This is the income distribution question. It indicates that the income inequalities which were falling during 1970-1995started to rise in the following period. As graph-1 shows, the Korean rise in income inequalities during the period 1998 to 2010 was relativelysmaller than other countries.

From the above facts and the narrative, the following analytical points emerge. First, there is the question of why inequality rose in the post-Asian crisis period. It will be appreciated that there are a number of causes why inequality

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[6]For a fuller discussion, see Amsden and Singh (1994).

could have increased. The discussion of this issue will necessarily brief the important conclusion from general discussion in the last section and this one is that although inequality rose in East Asian countries during and after the Asian crisis, the rise was relatively small and it is a moot question whether the policy makers should be concerned with such a small rise in income inequality. There is much more room for meaningful and useful action by the developing country governments if they were to go further than simply to reduce inequality. The truth of the matter is that the fast growing Asian economies have proved that they are able to have sustained economic growth for long periods of time. Below, we shall summarise some of the facts that we learn from the data for these fast growing East Asian countries.

V. Conclusion:

In conclusion it may be useful to draw attention to another aspect of income distribution and growth of the East Asian miracle countries. This is the question of wealth distribution. South Korea has been a pioneer in economic growth and, as the title of this essay suggests it has achieved an 'almost steady' growth of income over a fairly long period. There is however still pending the question of wealth distribution. As is well known that large corporations, the *Chaebols*, have played a central role is South Korea's prosperity. Scholars of South Korea estimate that it posses one of the most concentrated industrial structures in the world, whether one consider firms from rich or poor countries.

It is important to know that since the democratization movement has gathered pace, there have been growing protests by aggrieved citizens against the

alleged abuse of power by the Korean multinational conglomerates. Implications of the unequal distribution of wealth and that of income suggest that the government taxation system and other measures must have powerfully affected post tax income distribution to make it relatively more equal. These are however open questions for which we have not enough information to draw any firm conclusions. The purpose of this paragraph is not to suggest that the *Chaebols* should be abolished but rather their abuses, if any, should be investigated and punished. In our view the *Chaebols* remain central to development of South Koreas economy; they are also important elements in the conceptualization of the South Korean developmental state.

Research shows that such firms tend to be more efficient than the conglomerates in the developed world. For developing countries they spearhead the acquisition of technology from abroad. Developing countries wish to follow the Korean developmental path must make themselves aware of both the successes and the failures of the path. It is for others to emulate its achievements and to avoid failures.

Table 1 . Trends in Inequality in selected Asia and Pacific Countries										
Country	**Year of**				**Gini coefficient**				**Average annual percentage growth**	
	Early 1970s	Early 1980s	Early 1990s	Late 2000s	Early 1970s	Early 1980s	Early 1990s	Late 2000s	1970 to 1990	1991 to 2010
Japan										
income before taxes	1970	1981	1996	2009	35.5	33.4	40.3	48.8	1.4	1.2
income-after tax and transfers	1970	1980	1994	2010	31.4	31.4	32.3	33.6	0.1	0.3
First Generation Fast Growing economies										
Hong Kong	1971	1981	1991	2006	40.9	37.3	45.0	53.3	0.5	1.1
Singapore	1973	1980	1989	2010	41.0	42.0	39.0	48.0	-0.3	1.0
South Korea	1970	1982	1992	2010	33.3	35.7	28.4	31.0	-0.7	0.5
Taiwan	1970	1980	1990	2010	29.4	30.3	30.8	34.2	0.2	0.5
Average					**36.2**	**36.3**	**35.8**	**41.6**	**-0.1**	**0.8**
Second Generation Economies										
Indonesia	1971	1984	1990	2010	43.9	40.4	38.7	35.6	-0.7	-0.4
Malaysia	1970	1979	1989	2009	50.0	51.0	48.3	46.2	-0.2	-0.2
Philippines	1971	1985	1989	2009	49.4	46.1	45.7	43.0	-0.4	-0.3
Thailand	1969	1981	1990	2010	42.6	43.1	48.8	39.4	0.6	-1.1
Average					**46.5**	**45.2**	**45.4**	**41.1**	**-0.2**	**-0.5**
Third Generation Economies										

Cambodia			1994	2009			38.3	36.0		-0.4
Vietnam*			2001	2010			42.0	43.3		0.3
Laos PDR			1992	2008			30.4	36.7		1.2
Mongolia			1995	2008			33.2	36.5		0.7
Average							**36.0**	**38.1**		**0.5**
Other Economies										
China	1970	1980	1990	2012	27.9	32.7	37.9	47.4	1.5	1.0
India*	1970	1983	1993	2010	30.4	31.5	32.5	33.9	0.3	0.2
Pakistan	1970	1979	1990	2005	32.1	36.0	40.7	43.0	1.2	0.4
Bangladesh	1973	1981	1991	2010	36.9	38.3	30.9	48.2	-0.9	2.5
Sri Lanka	1970	1981	1991	2010	37.7	43.0	47.0	49.0	1.1	0.2
Nepal		1984		2010		30.1		32.8		0.3
Fiji		1977	2003	2009		42.5	46.8	42.8	0.4	-1.5
Average					**37.3**	**38.5**	**41.6**	**43.2**	**0.2**	**0.5**
All 20 countries					**37.9**	**38.3**	**39.2**	**41.5**	**0.16**	**0.28**

Note: * -indicates the gini for the country/year concerned are based on per capita consumption whereas rest are based on income.

Source: WIDER, World Bank Povcal Net data and Deininger and Squire (1996) high quality data (http://go.worldbank.org/vvpo9ksjjo)

					Ratio of the share of Top20% to Bottom 20% in income distribution				Average annual percentage growth		
Country	Year of										
	Early 1970s	Early 1980s	Early 1990s	Late 2000s	Early 1970s	Early 1980s	Early 1990s	Late 2000s	1970 to 1990	1991 to 2010	
Japan											
income before taxes											
income-after tax and transfers	1972	1980	1996	2009	6.5	6.3	6.9	7.2	0.2	0.3	
First Generation Fast Growing economies											
Hong Kong	1971	1981	1991	2006	9.0	7.5	10.1	18.0	0.6	3.9	
Singapore	1973	1980	1989	1998		7.1	7.1	9.8	0.0	3.6	
South Korea	1970	1982	1992	2010	5.7	6.2	5.7	5.8	0.0	0.1	
Taiwan	1970	1980	1990	2010	4.5	4.2	5.0	6.2	0.5	1.1	
Average					**6.4**	**6.3**	**7.0**	**10.0**	**0.3**	**2.2**	
Second Generation Economies											
Indonesia	1970	1980	1990	2011	5.3	5.8	4.6	6.3	-0.7	1.5	
Malaysia	1970	1979	1989	2009	14.1	15.1	11.7	11.3	-1.0	-0.2	
Philippines	1971	1985	1989	2009	15.0	10.0	10.1	8.3	-2.2	-1.0	
Thailand	1969	1981	1990	2010	9.8	11.9	13.8	6.9	1.6	-3.4	
Average					**11.1**	**10.7**	**10.1**	**8.2**	**-0.6**	**-0.8**	

Table 2 . Trends in Inequality in selected Asia and Pacific Countries

	Y1	Y2	Y3	Y4	G1	G2	G3	G4	D1	D2
Third Generation Economies										
Cambodia			1994	2011			5.8	6.3		0.5
Vietnam*			1992	2010			5.5	5.9		0.4
Lao PDR			1992	2008			4.2	5.9		2.1
Mongolia			1995	2008			4.9	6.2		1.8
Average							**5.1**	**6.1**		**1.2**
Other Economies										
China	1970	1980	1990	2009	4.6	4.6	5.9	10.1	1.2	2.9
India*	1970	1983	1993	2010	4.5	4.7	4.5	5.0	0.0	0.6
Pakistan	1970	1979	1991		7.9	10.0	8.7		0.4	
Bangladesh	1973	1981	1992	2010	6.3	6.8	4.1	4.7	-2.2	0.8
Sri Lanka	1970	1981	1991	2010	6.2	9.1	9.5	12.0	2.1	1.2
Nepal		1984		2010		4.3		5.0		0.6
Fiji			2003	2009			12.6	8.0		-7.3
Average					**5.9**	**6.6**	**7.5**	**7.5**	**-0.1**	**-0.2**
All 20 countries					7.1	7.6	7.0	7.8	-0.05	0.55

Note: 1. * -indicates the gini for the country/year concerned are based on per capita consumption whereas rest are based on income.

2. ** indicatesfigres for market income whereas rest are for disposable income.

Source: WIDER, World Bank Povcal Net data and Deininger and Squire (1996) high quality data (http://go.worldbank.org/vvpo9ksjjo)

(accessed on 03.09.2013) supplemented by country specific published/unpublished household survey data.

Table 3. Average real wage growth in Asia: 1984-2011

Country	Annual % growth		
	1984-1994	1995-2011	2006-2011
Japan	12.7	-0.1	-0.4
First generation economies			
Hong Kong	16.0	1.9	0.5
Singapore	8.5	3.1	1.0
South Korea	12.1	2.4	-0.3
Taiwan		0.6	
Average	**12.2**	**2.0**	**0.4**
Second generation economies			
Indonesia	2.3	3.6	-0.7
Malaysia	11.9	1.6	1.3
Philippines	8.2	-3.4	-0.5
Thailand	7.6	0.3	1.9
Average	**7.5**	**0.5**	**0.5**
Other Economies			
China	12.7	11.4	12.1
India	0.9	1.7	1.5
Pakistan		1.5	1.9
Bangladesh	12.7	5.7	3.8
Sri Lanka		-0.7	-1.7
Nepal	6.6	3.0	2.6
Fiji		-0.7	
Average	**8.2**	**3.1**	**3.4**
All countries	**9.4**	**2.0**	**1.6**

Source: ILO data set

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Appendix-1

Kuznet curve-a critique:

The Kuznet curve, formulated by Simon Kuznet in the mid-fifties, argues the inverted-U shape pattern of inequality in long run process of economic development. With increasing economic growth, inequality in personal distribution of income first tends to widens, peaks and then diminishes. Kuznets(1955) argued that the processes beneath the inverted-U curve lies in the dynamics of dual structure of economies. Inequality in pre-industrial societies is low in the beginning but starts rising with shift of population from low-productive agriculture to more-productive industrial and more unequal (wages) industrial sector. Maturation of economies at higher level of development and public social protection mechanisms narrows rural-urban gaps and interpersonal distribution of income inequalities. Williamson (1985) emphasized the role of technological change as contributor to different rates of skill accumulation and as a cause of earnings inequality. He argued that the existence of rising-falling Kuznets curve lies in "dis-equilibrating factor demand forces, which tend to augment inequality during early industrialization" and by "equilibrating factor supply responses, which tend to produce egalitarian trends during late industrialization" (p. 3).

Recently, Acemoglu and Robinson (2002) argued that development does not necessarily induce a Kuznets curve and put forth political economy explanation of the downturn in the inverted-U curve. They emphasized: "capitalist industrialization tends to increase inequality, but this inequality contains the seeds of its own destruction, because it induces a change in the political regime towards more redistributive system"(p.184). Later on Palma (2011) also argued that rather than pure economic factors, political-institutional factors along with the nature of political settlement have greater influence on the income distribution.

Historical evidence from the rich countries, especially from United Kingdom and United States, supports the Kuznets curve but only up to 1970 when inequality reached at its lowest level. But the post-1970 evidence from advanced economies confounds the Kuznets inverted-U curve. Rising income inequalities in 16 of the 20 rich OECD countries between mid-1980s and mid-2000s are contrary to the expectations of the Kuznets curve (Milanovic, 2011). Similarly cross-country data supporting Kuznets Inverted-U curve observed by many studies (Ahluwalia, 1976, Ahluwalia, Carter and Chennery, 1979) during 1980s disappeared by 2005 (Palma, 2011). On the contrary, from the observed horizontal elliptical shape between Gini and log of income for 2005, Palma(2011) concludes that a greater majority of the countries in the world have relatively similar income distribution. On basis of graphical exposition and regression estimated on data from 135 countries over 1985-2005 period, Palma (2011) found that the upward side on the inverted-U have evaporated and income-inequality distribution manifested in downward side shape only. Cross-sectional evidence notwithstanding, debate on the relevance of Kuznets-U curve income-inequality relationship is still far away from any definite conclusion as some others still believe its relevance in the time-series context (Kanbur, 2011).

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Appendix-2

Regression of Gini coefficient of income inequality in South Korea on per capita income and time, 1965-2012

Independent Variables	Dependent variable-Gini coefficient Regression coefficients (t-values in parentheses)					
	I	II	III	IV	V	VI
Per capita income (PCY)	3.666×10^{-6} $(6.042)^{*}$	3.241×10^{-6} (1.153)	2.350×10^{-5} $(3.444)^{*}$			
PCY^2		2.363×10^{-11} (0.153)	-2.710×10^{-9} $(3.132)^{*}$			
PCY^3			1.008×10^{-13} $(6.04)^{*}$			
Time				0.002 $(7.017)^{*}$	1.346×10^{-3} (1.483)	3.494×10^{-3} $(2.099)^{**}$
$Time^2$					4.112×10^{-6} (0.224)	-7.758×10^{-4} $(1.790)^{***}$
$Time^3$						6.516×10^{-6} $(1.853)^{***}$
Constant	0.267 $(45.492)^{*}$	0.269 $(27.571)^{*}$	0.234 $(16.788)^{*}$	0.260 $(42.912)^{*}$	0.262 $(27.717)^{*}$	0.245 $(19.260)^{*}$
R^2	.045	0.45	0.55	0.52	0.52	0.56
Number of observations	47	47	47	47	47	47

Note: *, ** & *** indicate that value significant statistically at 1, 5 and 10 per cent level of significance for 2-tailed t-test.

Source: As table-1.

Appendix-3

Palma ratio

The Palma is an alternative measure of income inequality based on the work of Gabriel Palma(2006). The Palma is defined as ratio of the share of top 10 per cent rich in national income to the share of bottom 40 per cent of the poor population. It basically addresses to the Gini index's lesser sensitivity to changes at the top and bottom of income distribution and oversensitivity to the changes in the middle of the distribution. The index is based on observation that half of the middle income world population have acquired half of their respective national income; the rest half of the income is shared between the very rich (richest 10 percent) and very poor (poorest 40 percent). The share of very rich and very poor varies across countries. The superiority of the Palma ratio over Gini coefficient lies in its more intuitive interpretation for stakeholders(policy makers and citizens) and its more suitability as policy indicator of the extent on inequality and poverty reduction policy (Gabriel, 2006 and 2011, and Cobham and Summer, 2013).

The evidence on the changing inequalities in terms of Palma ratio (table-4) is same as seen in case of Gini coefficient (table-1). The coefficient of correlation between the two turned is almost perfect, 0.99. Changes in inequality by Palma ratio, however, differ with Gini for some countries. For example, inequality in Philippines in terms of Gini coefficient declined throughout the 1980-2010 period while the Palma ratio increased overtime implying that the Philippines growth redistributed income from very poor (bottom 40 percent) to very rich (top 10 percent) in the country. In fact evidence suggests that the polices and changes associated with growth processes in the post financial crises period in majority (10 out of 16) of the Asian counties for which data is available led to polarization of income distribution. The richest 10 percent consolidated their position whereas the very poor 40 percent became more poor overtime. The polarization of income distribution was more serious in Malaysia, Philippines, Thailand and China. There is rapid move towards further polarization in Indonesia, Loa PDR, Mongolia and China.

Table- Changes in income inequality in selected countries of Asia: Palma Ratio

Country	Palma ratio			Change (%) pa	
	1980	1995	2010	1980-1995	1995-2010
Indonesia	1.153	1.226	1.486	0.41	1.29
Malaysia	2.969	2.967	2.627	0.00	-0.81
Philippines	1.978	2.174	2.183	0.63	0.03
Thailand	2.464	2.149	1.795	-0.91	-1.19
Average	2.141	2.129	2.023	-0.04	-0.34
Cambodia		1.736	1.543		-0.78
Lao PDR		1.169	1.599		2.11
Mongolia		1.287	1.555		1.27
Vietnam		1.508	1.489		-0.08
Average		1.425	1.547		0.55
China	1.049	1.485	2.153	2.35	2.51
India	1.199	1.186	1.392	-0.07	1.07
Bangladesh	0.911	1.361	1.272	2.71	-0.45
Pakistan	1.351	1.085	1.156	-1.45	0.42
Sri Lanka	1.279	1.494	1.571	1.04	0.34
Average	1.157	1.322	1.509	0.92	0.88
All countries	**1.649**	**1.625**	**1.693**	**-0.10**	**0.27**

Source: Cobham and Summer(2013) and own estimates from world Bank data