FORUM: Economic and Social Council

ISSUE: Measures to Minimize the Rising Economic Inequality in Asian Countries Caused by Market-Oriented Reform

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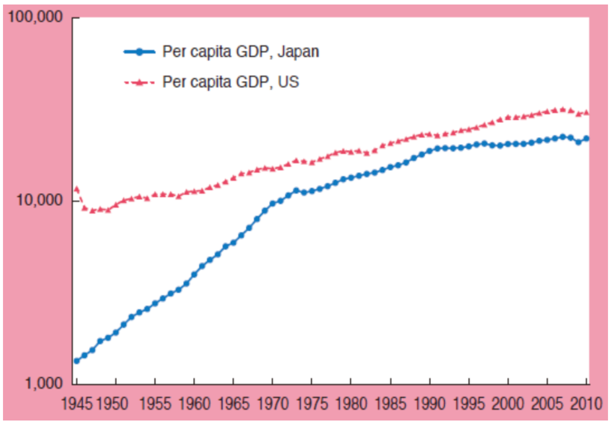
Introduction

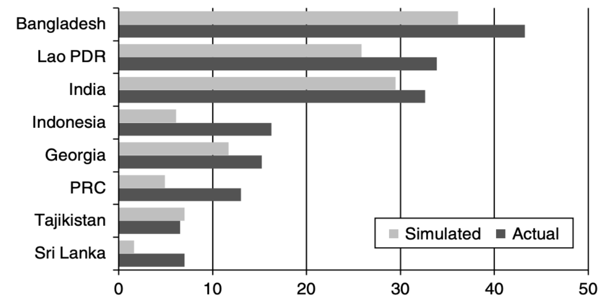
Imposing market-oriented reforms in countries is believed to make the economy more competitive and inventive. For example, in Asia, the dynamics between markets and the state have undergone a noticeable evolution over the past 50 years. Japan, in the aftermath of World War II, relied on market competition and private enterprises to fuel its recovery, while concurrently, the government actively fostered investment, manufacturing exports, and technological advancements. This brought Japan into a phase of rapid growth, which is also known as the Japan economic miracle, lasting over two decades, starting in the early 1950s. From the 1960s, countries such as Hong Kong, China, the Republic of Korea, and Singapore followed Japan's approach and shifted towards market-friendly policies. Their rapid growth turned them into newly recognized newly industrialized economies (NIEs). The Gini index represents the percentage of measured inequality, where higher values indicate higher inequality. Asia has the second highest Gini index value among the regions compared. Asia follows closely behind Africa in terms of income inequality levels. For example, Europe and the Americas show comparatively lower Gini index values, suggesting lower levels of income inequality in these regions.



Growth of Per Capita GDP in Japan & US

Looking at the recent trends in Asian countries, it becomes evident that Asia struggles with inequality of opportunity, a crucial element in the amplification of income inequality. Rising inequality not only restricts access to resources but also hampers the ability to improve one's living standards, including market access or public services like education and health. Inequality is not only an important dimension of development but also a significant influence on governmental endeavors to combat poverty and uphold continuous growth.

Background



Actual and simulated poverty rates at $1.25-a-day

The rising inequality can be rooted by job transformations, characteristics of capitalist market economics where poor and vulnerable are easily neglected. In India, implementing market reforms in the 1990s has encouraged impressive economic growth. Nevertheless, this growth has only worsened the income gap between different socioeconomic groups because they were not distributed evenly among the population. Moreover, in China, around the 1970s, a market-oriented economy drove the country to become a global economic powerhouse while worsening the wealth gap. Compared to other rural and inland regions, coastal regions and urban areas have experienced more significant economic gains, which contributed to regional disparities and income inequality. Additionally, problems such as the displacements of jobs due to advanced technology and wage stagnation for certain segments of the workforce can be addressed.

To reduce inequality from the market-oriented reforms, several measures have been proposed to address rising inequality in the region. Governments have imposed social safety nets to provide a basic level of support to vulnerable populations by offering programs such as cash transfers, food assistance, and healthcare subsidies. For example, the Philippines government has implemented a program called the Philippines' Pantawid Pamilyang Pilipino Program (4Ps), which provides cash compensation to low-income families when the children attend school and receive regular health check-ups. Another example would be India's Public Distribution System (PDS), which gives subsidized food to low-income families through a network of fair-price shops. This method is to ensure food security for vulnerable populations in their country.

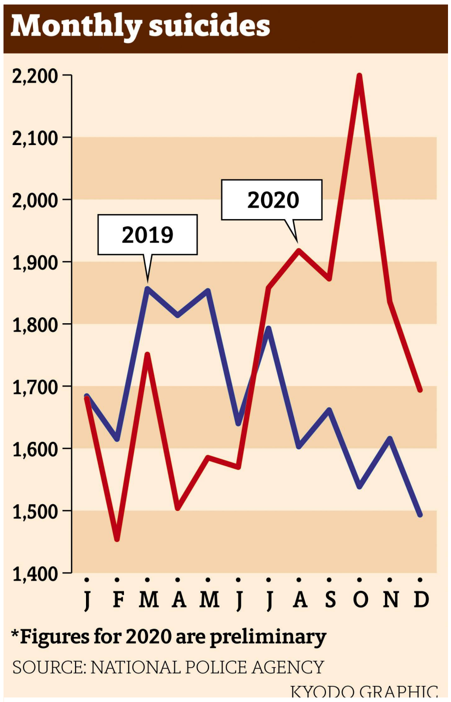
Problems Raised

Decreasing Consumer Demand

In 2014, several Asian countries, including Indonesia, Pakistan, and Cyprus, faced significant economic challenges due to market-oriented reforms, which led to decreased consumer demand. As these reforms often prioritize deregulation and liberalization, they can inadvertently widen economic inequality by concentrating wealth among a smaller segment of the population. This concentration of wealth reduces the purchasing power of a large portion of the populace, weakening overall consumer demand. For instance, as financial struggles became more widespread, the purchasing power of many households diminished, resulting in lower consumption of goods and services. This decline in consumer spending impacted economic growth and sustainability, as businesses experienced reduced revenues and economic activity slowed.

Socioeconomic Disparity

The adoption of market-oriented reforms in many Asian countries has increased socioeconomic inequality, dividing the gap between the wealthy and the unprivileged and fostering a sense of feelings of injustice among marginalized communities and populations. There is a strong association between socioeconomic status and deaths by suicide. Japan was one of the countries with a dropping trend in suicide rates before the pandemic. However, the pandemic brought nearly 50% increase in suicides. According to a research paper from the JAMA Network, the reason for suicide among men, 42.9% was linked to unemployment and an additional 23% attributed it to economic factors. Among Women, 40% were due to work failure / economic struggles. These studies demonstrate a strong correlation between socioeconomic disparities and the rate of suicide, highlighting a significant issue.



Monthly suicides in Japan

Erosion of Social Safety Nets

In the early 2000s, several countries like Korea and Malaysia witnessed a growing economic disparity resulting from market-oriented reforms in Asian nations. These reforms weakened the social safety nets and welfare systems, diminishing the capacity to offer sufficient assistance to vulnerable populations which are in need. This erosion of support led to a loss of trust in the government and its ability to effectively address all citizens' needs.

International Actions

Mahatma Gandhi National Rural Employment Guarantee Act

The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) is a landmark initiative in India aimed at enhancing economic security and reducing rural poverty. Enacted in 2005, this act guarantees 100 days of wage employment per year to every rural household whose adult members are willing to perform unskilled manual labor. By providing a legal guarantee of employment, MGNREGA not only boosts household incomes but also stimulates local economies through infrastructure projects and rural development. The program has successfully increased disposable income in rural areas, reduced seasonal migration, and improved access to basic amenities. MGNREGA serves as a model for integrating social safety nets with employment generation, demonstrating how targeted policies can mitigate economic inequality and foster sustainable development in underserved regions.

Tax System

Internationally, adopting a fair tax system can significantly contribute to reducing economic inequality, as demonstrated by South Korea's progressive tax approach. South Korea's tax system imposes higher rates on higher-income individuals while easing the burden on lower-income earners. This progressive structure has been instrumental in narrowing the wealth gap and improving economic equity among its citizens. Since implementing a more comprehensive progressive tax system, South Korea has observed a 7 percent increase in disposable income, highlighting the effectiveness of this approach in enhancing financial well-being. By adjusting tax policies to ensure that wealthier individuals contribute a fairer share, countries can achieve similar benefits, fostering greater economic balance and supporting overall economic stability.

Promotion of Access to Education and Skill Developments

Efforts have been made to promote access to education and skill development programs to enhance employability and reduce income inequality. In Vietnam, the government has invested in vocational training programs in Vietnam to equip workers with the skills needed for better-paying jobs. With these training programs, people were able to find jobs easier than before, leading to better life standard to the individuals.

Vocational Training Programs in Vietnam

Key Players

India

Due to India's population and diverse landscape, India is one of the significant contributors to the issue of economic inequality in Asia. To address this issue, India has implemented various social protection programs, such as the Mahatma Gandhi National Rural Employment Guarantee Act. India's government views tackling economic inequality as crucial for achieving inclusive growth and social development. Policies such as progressive taxation is also implemented in India and initiatives to promote access to education and healthcare demonstrate India's commitment to reducing inequality and improving the well-being of its citizens.

China

China's rapid economic growth and technology toward a market-oriented economy have led to essential and important shifts in income distribution. As one of the largest economies in Asia, China's stance on economic inequality is crucial to Asia as a whole. The Chinese government has taken steps to address this issue through poverty alleviation programs, rural development initiatives, and social welfare reforms. China recognizes the importance of balancing economic growth with social equity and has made efforts to reduce income disparities, particularly between urban and rural areas.

ADB Trade and Supply Chain Finance Program

Asian Development Bank (ADB)

The Asian Development Bank is an essential international organization that provides financial and technical assistance to promote economic development in Asia. The ADB has been actively addressing economic inequality through projects focusing on poverty reduction, infrastructure development, and social protection programs. The ADB views economic inequality as a barrier to sustainable development and advocates for inclusive policies that benefit marginalized populations in Asian countries.

The Word Bank

The World Bank is another important international institution that works to reduce poverty and promote shared prosperity worldwide. The World Bank provides funding, policy advice, and research to support initiatives that address economic inequality in Asian countries. The organization emphasizes the need for inclusive growth, good governance, and social protection systems to reduce disparities and improve the well-being of populations in the region.

Possible Solutions

Enhancing Labor Market Policies

Enhancing labor market policies is a pivotal strategy for reducing economic inequality and ensuring fairer economic outcomes for all individuals. One of the fundamental measures in this area is increasing the minimum wage, which directly lifts earnings for low-wage workers and helps to ensure that all employees earn a living wage that meets basic needs. Additionally, strengthening labor rights and protections—such as enforcing fair working conditions, providing secure contracts, and safeguarding gig workers—ensures that all workers are treated with dignity and fairness, regardless of their employment status. Workforce development programs are also essential, as they provide job training and skill development opportunities that enable individuals to adapt to evolving job markets and enhance their earning potential. By implementing these labor market policies, governments can create a more equitable job market that not only improves income distribution but also fosters greater economic stability and growth.

Progressive Tax System

A progressive tax system, where tax rates increase with income levels, ensures that those with greater financial means contribute a higher percentage of their income to the public coffers. This system can be effective in redistributing wealth and reducing income disparity. By implementing progressive income taxes, higher-income individuals and corporations will bear a larger share of the tax burden, which can then be allocated to social programs and services benefiting lower-income groups. For example, increased taxes on high-income earners can fund social safety nets, such as unemployment benefits, healthcare, and educational programs, directly supporting those who are most in need. This redistribution helps mitigate the adverse effects of market-oriented reforms that may disproportionately benefit the wealthy, ensuring that economic gains are more evenly distributed.

Increasing Consumer Demand

Increasing consumer demand is crucial for economic growth and reducing inequality. By boosting disposable income through measures like tax cuts or direct assistance to low-income households, consumer spending rises, leading to higher business revenues and job creation. Investing in infrastructure and public services also enhances living standards, supporting sustained economic activity. These strategies not only drive immediate demand but also contribute to long-term economic stability and more equitable growth.

Glossary

Market-oriented economic reforms

Market-oriented economic reforms refer to policies that aim to increase the effectiveness of a country's functioning market, reduce government intervention, and promote free trade.

Deregulation

Deregulation refers to the process of reducing government regulations to increase the efficiency of economic growth with lower cost of operation and bring lower price to consumers.

Free trade

Free trade refers to the international exchange of goods or services between different countries without regulations that governments impose. It allows enhanced efficiency with encouraged competition, leading to the country's benefit.

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