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Socio-Economic Disparity in the APEC Region

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The APEC Secretariat

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APEC
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FOREWORD

It is widely believed that globalization, through Trade and Investment Liberalization and Facilitation (TILF), is an engine for economic growth and prosperity in an economy. There have been increasing concerns, however, about a possible impact of globalization on income inequality, which may prevent some people in the region from fully benefiting from trade and investment liberalization. In the meantime, widening socio-economic disparity in the region has been observed raising concern among Leaders at the 2005 APEC Leaders meeting, prompting them to initiate a study of ways to confront the challenges and impediments relating to socio-economic disparity in the region.

A Korean research team has undertaken this important research on "Socio-economic Disparity in the APEC Region" as a follow-up to the 2005 APEC Leaders' agreement and a subsequent mandate from SOM for the Economic Committee (EC) to lead the research. I believe this important piece of research has helped us to come one step closer to attaining the Bogor Goals by determining the current status of socio-economic disparity in the region as well as the proper policy implications and directions to narrow the disparity.

I also believe that this work will help to further liberalize and advance prosperity in the region by tackling the disparity that hinders the full realization of the potential economic benefits.

My deepest appreciation goes to all the member economies who have greatly contributed to completing this research as a substantial outcome through various comments and suggestions. Especially, I would like to thank my colleagues who actively participated in the APEC Symposium on Socio-economic Disparity, which was held on 28–29 June in Seoul, Korea. This symposium was truly an integral part of this research project. My special thanks also go to Mr Moon-Up Sung, Director of Ministry of Foreign Affairs and Trade (MOFAT) of the Republic of Korea, for his leadership as project overseer, including the APEC Symposium on Socio-economic Disparity. I also would like to express my sincere appreciation to Drs Sang-Yirl Nam and Heungchong Kim at the Korea Institute for International Economic Policy (KIEP) for conducting this excellent research. And, last but not least, I must not forget to express my special appreciation to Ms Carmen Mak, Director (Program) at the APEC Secretariat, for her dedication in seeing this project report through to publication.



Kyung Tae Lee
Chair, APEC Economic Committee
Seoul, September 2006

EXECUTIVE SUMMARY

Observing the widening socio-economic disparity in the APEC region, the APEC Leaders agreed to conduct a study of ways to confront the challenges and impediments related to socio-economic disparity in the region. This paper reports on the findings of that project, including the outcome of the “APEC Symposium on Socio-economic Disparity,” held on 28–29 June 2006 in Seoul.

Socio-economic disparity matters when it creates socio-economic exclusion. Thus, it is crucial to form a series of dynamics in the socio-economic strata through building and strengthening linkages. Structural reform, capacity building and anti-corruption activities can be good policy measures for linkage-building, as they can serve a useful means for providing equal opportunities, enhancing the capabilities of marginalized groups, and establishing good governance. Structural reform can compensate for defects in market failures, which disproportionately affect marginalized groups by denying them socio-economic opportunities. Reform can also enhance efficiency in the public sector, which is crucial for the promotion of disadvantaged groups. For building capacity, social capitals as well as human capital need to be emphasized, as it is more difficult for disadvantaged groups to create social capital. Anti-corruption is another important issue for narrowing socio-economic disparity, as vested interest groups discriminate against the disadvantaged while seeking illegal rent.

Socio-economic disparity is relevant to APEC’s ongoing activities. While APEC already has in place frameworks for combating disparity and has conducted activities regarding the issue, there is still a need to emphasize the relationship between policy and disparity, and to develop policy agendas for the activities of each committee and working groups. A comprehensive and target-based strategic policy mix among governmental organizations within an economy and among the APEC member economies needs to be developed in order to deal with the issue in the future.

From the policy experiences shared by the APEC economies, we can identify several recommendable good practices: First, bold action to expand social expenditure targeting marginal groups’ needs to accompany pro-growth strategies. Second, poverty eradication policy should include the development of linkages for marginalized groups. Third, an integrated and systematic approach is required for sustainable policy coherence. Fourth, the healthy economic development environment of an uncorrupted society is vital for economic prosperity and member economies should advocate “zero tolerance” on corruption. Fifth, the improvement of government services related to social services needs to be a top priority as it will directly influence the success of reform policies. Sixth, it would be useful to document the current state of social and economic wellbeing, as a good starting point for isolating existing problems relating to disparity. Last, international comparison with other organizations such as the OECD would be useful.

SUMMARY

SEPTEMBER 2006

The global economy is facing a worldwide trend of growing income gaps among people. Observing the widening socio-economic disparity in the APEC region, the APEC Leaders agreed to conduct a study of ways to confront the challenges and impediments related to socio-economic disparity in the region. In the course of research, the “APEC Symposium on Socio-economic Disparity” was held on June 28-29 in Seoul to deepen the understanding of the disparity issue among member economies and share experiences and policy responses among the APEC economies. This paper reports on the findings of that project including the outcome of the symposium.

Socio-economic disparity is multi-faceted, but essentially regresses to disparity among individuals. Socio-economic disparity matters most when it creates socio-economic exclusion. Problems and tension in widening socio-economic disparity arise when some people in a society are systematically excluded from a virtuous economic cycle. Thus, it is important to form a series of dynamics in the socio-economic strata.

Globalization in terms of Trade and Investment Liberalization and Facilitation (TILF) is undoubtedly an engine for economic growth and prosperity in an economy. With regard to globalization and income inequality, however, we do not have a definitive answer to the question of whether globalization inevitably raises income inequality within an economy. The existence of well-designed policy implementation and good institutions can play a key role in harmonizing globalization and income distribution. With regard to income inequality and economic growth, it is important to note that narrowing socio-economic disparity can contribute to sustainable development or long-term economic growth.

Restoring marginal groups' linkages to society is a good start in solving the disparity problem. Structural reform, capacity building and anti-corruption activities are good approaches to linkage-building; they can serve as useful means for providing equal opportunities, enhancing the capabilities of marginalized groups, and restoring good governance, respectively. Structural reform can compensate for defects in market failures, which disproportionately hit marginalized groups by removing their socio-economic opportunities. Reform can also enhance efficiency in the public sector, which is crucial for the promotion of disadvantaged groups. For building capacity, social capital as well as human capital need to be emphasized, as it is more difficult for disadvantaged groups to create social capital. Anti-corruption measures are another important ingredient for narrowing socio-economic disparity, as vested interests groups discriminate against the disadvantaged while seeking illegal rent.

Socio-economic disparity is relevant to APEC's ongoing activities, and APEC already has in place frameworks for combating disparity. Ongoing activities, having made little consideration on the disparity issue, however, need to emphasize the relationship between policy and disparity, and develop policy agendas for the activities of each committee and working groups.

One way to narrow socio-economic disparity is to restore linkages in a society. APEC and member economies' ongoing economic and social policies have contributed to tackling disparity, but a comprehensive and targeted strategic policy mix among government organizations within an economy, between member economies and at APEC levels needs to be developed in order to deal with the issue. This can eventually contribute to the achievement of the Bogor goals and the prosperity of the APEC region.

From the policy experiences shared by the APEC economies, we can identify and recommend the following practices: First, bold actions on expanding social expenditure targeting marginal groups accompanied by a pro-growth strategy. Second, poverty eradication policy should be viewed as a linkage program between marginalized groups and the wider society. Third, an integrated and systematic approach is required for sustainable policy coherence. Poverty reduction and the improvement of scholastic performance among marginal groups cannot be solved only through governmental efforts or the school system, as they are related to the local community and family. Fourth, the healthy economic development environment of an uncorrupted society is vital for developing a regional economy and enhancing productivity and competitiveness. Thus, a policy of "zero tolerance" toward corruption is recommended. Fifth, the improvement of government services related to social services should be a top priority as it is directly connected to the success of reform policies. Sixth, it would be useful to document the current state of social and economic wellbeing, as this is a very good starting point for identifying legacy issues in disparity. A precise and balanced description of the current situation is a prerequisite to the creation of policy measures. Last, international comparison with other organizations such as the OECD would provide another perspective on enhancing the welfare of each economy.

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1. INTRODUCTION

As a follow-up to the 2005 APEC Leaders' agreement¹ Korea proposed a study of ways to confront the challenges and impediments related to socio-economic disparity in the APEC region. A subsequent mandate from SOM to the Economic Committee (EC) set in motion a new research project titled, "Socio-economic Disparity in the APEC Region" in February 2006. In the course of research, the APEC Symposium on Socio-economic Disparity was held on 28–29 June 2006 in Seoul to deepen the understanding of inequalities among APEC member economies and share experiences and policy responses. This paper reports on the findings of the research, including the outcome of the symposium.

One of APEC's core goals is to promote 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. In line with this objective, APEC has been making great strides in advancing economic growth and prosperity across the region for the past 17 years. There is no doubt that trade and investment liberalization greatly contribute to the economic growth and welfare of the people in this region as confirmed by the Midterm Stock-take on progress toward achieving the Bogor Goals.

Increased integration within the rapidly transforming global economic landscape, together with accelerating technological change, however, have been linked to widening disparity among sectors and groups in both developed and developing economies. The APEC economies are not an exception to this trend. Widening socio-economic disparity undermines the benefits of trade liberalization and economic growth shared by all people in the region, which consequently endangers further liberalization. The APEC economies are confronted with the common task of addressing the problem of economic and social disparity in each economy so that the benefits of trade and investment liberalization and economic growth can reach all peoples and further liberalization can be promoted.

The research on socio-economic disparity aims to deepen our understanding by providing a common view within the APEC economies, to share policy experiences among the member economies to solve the problems arising from disparity, and to explore model policy examples that help to reduce that disparity. Ultimate goals for the sharing of the member economies' experiences of combating socio-economic disparity are, among others, to contribute to achieving sustainable development and growth, to provide a basis for all peoples to enjoy the real benefits of trade and investment liberalization and economic growth, and thus to provide a favorable environment for further liberalization of trade and investment. It also supports the spirit of the 2006 Viet Nam APEC meetings pursuit of sustainable development and prosperity, gap bridging and community linkages.²

This study discusses ways in which to narrow the disparity gap through the ongoing efforts and activities in many APEC fora and reviews what further policy tools need to be developed to combat

¹ "We agreed to conduct a study of ways to confront the challenges and impediments related to socio-economic disparity issues. APEC intends to build on its ongoing work to expand the circle of beneficiaries of economic growth through such means as providing economic and technical cooperation, particularly, measures of capacity building, encouraging economic reforms and fighting corruption." - BUSAN DECLARATION at the 13th APEC ECONOMIC LEADERS' MEETING, Busan, Korea, 18-19 November 2005.

² The Main theme of the APEC Viet Nam 2006 is, "Toward a Dynamic Community for Sustainable Development and Prosperity," followed by four sub-themes including "Strengthen Economic and Technical Cooperation for Gap Bridging and Sustainable Development," and "Promote Community Linkages." - <http://www.apec2006.vn/subpage/page/6>

socio-economic disparity. It emphasizes the important and ongoing role of APEC in alleviating the problems of disparity. First, the following issues need to be clarified:

- The concept of socio-economic disparity
- Current status of socio-economic disparity in the APEC economies
- Socio-economic disparity and its relations with APEC's ongoing activities
- Policy tools tackling socio-economic disparity
- Evaluation of the policy tools in action

This study examines the problems of socio-economic disparity in light of APEC activities and considers why socio-economic disparity is so crucial in achieving TILF and sustainable development, and how we can achieve these goals through APEC fora. This can provide a new way of thinking about APEC's ongoing activities, widening the coverage of the activities into the area of socio-economic disparity.

Therefore, this study intends to play a pilot role in stimulating further in-depth research on the issues of socio-economic disparity and its relationship with TILF and sustainable growth.

2. THE CONCEPT OF SOCIO-ECONOMIC DISPARITY

Socio-economic disparity is a complex concept, with many overlapping economic perspectives and social dimensions. First there is the problem of measuring disparity. To date, a herd of indicators that measure inequality has been developed. One of the most popular indicators is the Gini index, there are other measures such as Generalized Entropy (GE) (which includes Theil's indicators as a special case), Quantiles, Atkinson's index, etc. Recently, Esteban and Ray (1994) and Wolfson (1994) developed effective measures of polarization called ER and W.³ All of these indicators measure inequality, however, they share the same fundamental flaw in that they cannot shape the exact landscape of the distribution.⁴

It is difficult to harmonize economic inequality with social disparity but it is very important to consider social disparity, as it can broaden and deepen the concept of economic disparity. The United Nations has created a Human Development Index (HDI), which is comprised of comparative measures of poverty, literacy, education, life expectancy and many other criteria. HDI adopts a wider set of criteria than income disparity, so it can be used as a social indicator to supplement the economic metrics for measuring disparity.

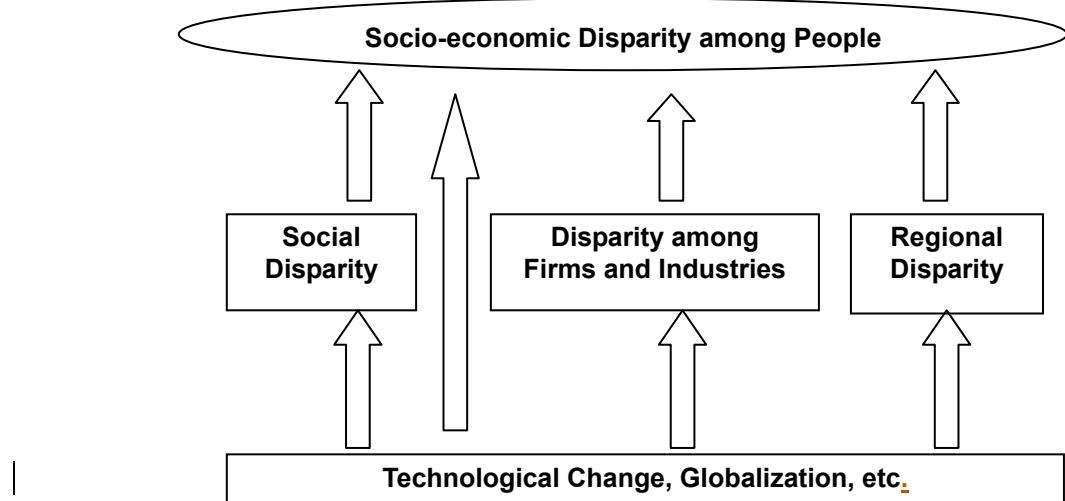
Socio-economic disparity is multi-faceted, but disparity essentially regresses to disparity among individuals.

Disparity has many aspects. Disparity in income through the degree of skills and years of schooling, and disparity in job opportunities, in access to information and health all relate to individuals. People can be disadvantaged simply because they live in a backward region, thus disparity in regional development is another target in combating disparity. Some people in shrinking industries or firms facing bankruptcy have severe difficulties, including job or income loss; thus disparities among industries and among firms are also worth investigating. Disparity among regions, industries and firms matters because they are inseparable from the people in the disadvantaged group. Similarly, social disparity, which is related to indicators such as education, health and hygiene, crime, etc. is ultimately about individuals in different social strata. Thus, the issue of disparity eventually regresses to disparity among people. Chart 1 conceptualizes socio-economic disparity.

³ The ER measure employs notions of intra-group *identification* and inter-group *alienation*, and it is defined that polarization increases with these two features. The W measure regards polarization as the sum of deviation from its median income, thus distance from median income is employed for the measurement.

⁴ The measurement of distribution is a matter of a dimension change from $R^2 \rightarrow R^1$.

Chart 1: A Conceptualization of Socio-economic Disparity



Socio-economic disparity does matter when it creates socio-economic exclusion.

Widening disparity is not so problematic if vivid social mobility is guaranteed. Problems and tension in widening socio-economic disparity arise when some people are *systematically* excluded from a virtuous economic cycle. If a disadvantaged group is isolated for a long time, resulting in *structural isolation*, then economic growth may be hindered and the society may lose its potential to prosper. Hence, it is vital to maintain movement within the socio-economic strata.

3. THE CURRENT STATUS OF SOCIO-ECONOMIC DISPARITY IN THE APEC REGION

The global economy is facing many challenges, one of which is growing income inequality. Everywhere, there is evidence of widening socio-economic disparity among industries, companies and regions, as well as between individuals. Unskilled labor employed in the “sunset” industries, low value-added SMEs, and those living in depressed areas are severely disadvantaged.

The 1990s witnessed an acceleration of this trend, although income distribution has been deteriorating since the 1970s in some developed economies. The income distributions found notably in the United States, the United Kingdom, New Zealand, the Netherlands, Japan, Australia and Austria have tended to go to multi-modal for a period after the mid-1970s. Using the extended ER measure, Esteban, Gradian, and Ray (1999) examined the degree of polarization in five OECD countries—the United States, the United Kingdom, Germany, Canada and Sweden—and found that income distribution in the United States polarized in 1979–86 and 1991–94, and that Canada’s income distribution improved in the 1970s and 1980s before experiencing a reversal with growing but modest polarization after 1991. The Gini coefficients in the United Kingdom and the United States have increased, by 10 points since 1978 and by five points since 1968, respectively.⁵

APEC member economies are not immune. APEC is composed of 21 member economies with great diversity in land area, population, economic power and income level, compounding the emerging trend of widening socio-economic disparity in the region. In Korea, the poverty ratio increased from 12.7 percent in 1996 to 17.0 percent in 2000, roughly the same level as that of the United States. The Gini coefficient of Korean households was 35.8⁶ in 2000, which is one of the highest readings (100 is complete inequality of distribution), together with the United States, among the OECD countries. In Japan, where over 90 percent of the people once identified themselves as “middle class,” the middle class has been shrinking after the bubble economy collapsed in 1992. The number of Japanese people whose living standard was below the “middle-low” mark increased to 33.6 percent in 2004.⁷ Average urban incomes in China were 3.2 times larger than rural incomes in 2003 and Shanghai’s GDP per capita of \$6,656 was 13.1 times higher than that of Guizhou province.⁸ Assets, especially real estate, have played an important role in enlarging the wealth gap in urban areas of China.

In East Asia, the rate of income polarization accelerated after the economic crisis. Korea’s Gini coefficient jumped by 6 points in the four years after 1996. In Thailand, the income gap also widened sharply following the financial crisis. Soaring asset prices in urban Indonesia and Malaysia in the course of economic recovery have contributed to the division of the haves and the have-nots.

Table 1 shows the Gini coefficients of APEC economies in selective years starting in 1989. From the mean value for those economies with all the available data, we observe growing income inequality as the mean Gini coefficient deteriorated from 36.4 in the first period, to 40.2, and then 40.9 more recently.

Beyond the general pattern of deepening inequality, several characteristics in the evolution of income disparity can be observed in the APEC economies. First, English-speaking economies such

⁵ Over the years, the polarization measure of ER has gone hand in hand with the trend of the Gini coefficients in the United States and Canada. In the case of the United Kingdom, however, the ER polarization measure and the Gini do not coincide. The Gini coefficients increased in 1979–86 and 1991–94, while the ER polarization measure increased sharply in 1986–91 in the United Kingdom.

⁶ By definition, the Gini coefficient ranges 0 ~ 1 or 0 ~ 100 percent, but figures ranged 0 ~ 100 are adopted here without the notation of “percent,” as is often the case in the economics articles and books.

⁷ Cabinet Office, *Survey of Public Opinion on People’s Living*, each year.

⁸ China Statistics Yearbook, each year, and CEIC, www.ceicdata.com

as the United States, Australia, New Zealand and Canada, whose income distribution has deteriorated since the mid-1970s, have experienced stable or at worst only a moderate deterioration in income distribution in the 1990s and thereafter. During the 1970s and 1980s, the income distribution in the United States deteriorated, but Table 1 shows that the American income distribution more or less stabilized in the 1990s. New Zealand, which experienced a sharp increase in income inequality during the mid-1980s to the mid-1990s, has had no further deterioration in income distribution since the mid-1990s, while Canada's degree of inequality steadily grew in the 1990s.⁹

Second, those East Asian economies who were hit by the economic crisis witnessed soaring values of the Gini coefficient in the second period, while that of Japan grew in the 1990s. China experienced a drastic but consistent increase of income inequality with accelerated economic growth. Third, before and after 1990, Mexico was one of the economies that experienced a change in income inequality of more than 12 percent, but since the mid-1990s, this trend has changed to a modest increase. Peru's Gini coefficient has gradually increased, whereas income inequality in Chile has improved, although the level of inequality is still relatively high.¹⁰

⁹ For the income distribution of OECD countries, see M. Förster, and M.M. d'Ercole (2005).

¹⁰ The Gini Coefficient of Chile in 2000 was reported to be 57.1 in the World Development Report 2005. The figure, 51.0 in the Table 1 is from the 2006 version of the same report.

Table 1: Gini Coefficients of APEC Economies

	I.	II.	III.
Australia	33.7(1989y)	35.2(1994y)	-
Canada	31.5(1994y)	33.1(1998y)	33.0(2000y)
Chile	56.5(1994y)	-	51.0(2000y)
PRC	23.0(1990y)	40.3(1998y)	45.0(2001c)
Indonesia	31.7(1993c)	36.5(1996y)	34.3(2002c)
Japan	27.8(1992y)	28.4(1997y)	28.4(2002y)
Korea	31.6(1993c)	31.6(1998y)	35.8(2000y)
Malaysia	48.4(1989y)	49.2(1997y)	-
Mexico	50.3(1992c)	53.7(1995y)	54.6(2002y)
New Zealand	43.9(1991y)	36.2(1997y)	-
Papua New Guinea	-	50.9(1996c)	-
Peru	44.9(1994c)	46.2(1996y)	49.8(2000c)
Philippines	42.9(1994c)	46.2(1997c)	46.1(2000c)
Russia	31.0(1993y)	48.7(1998c)	45.6(2000c)
Singapore	-	42.5(1998y)	48.0(2000y)
Chinese Taipei	31.6(1993y)	32.4(1998y)	32.6(2000y)
Thailand	46.2(1992c)	41.4(1998c)	43.2(2000c)
United States	40.1(1994y)	40.8(1997y)	40.8(2000y)
Viet Nam	35.7(1993c)	36.1(1998c)	35.0(2002c)
Mean	36.4	40.2	40.9

Notes: Figures in the parentheses indicate the year of survey; c indicates that the inequality measures refer to a distribution of consumption expenditures; y indicates that the inequality measures refer to a distribution of incomes; "Mean" indicates the arithmetic mean for the 13 member economies whose data are available for the whole three periods; No record is reported from Hong Kong, China; and Brunei Darussalam; Japanese figures are from F. Otake (2005, 7); "-" implies that the data were unavailable.

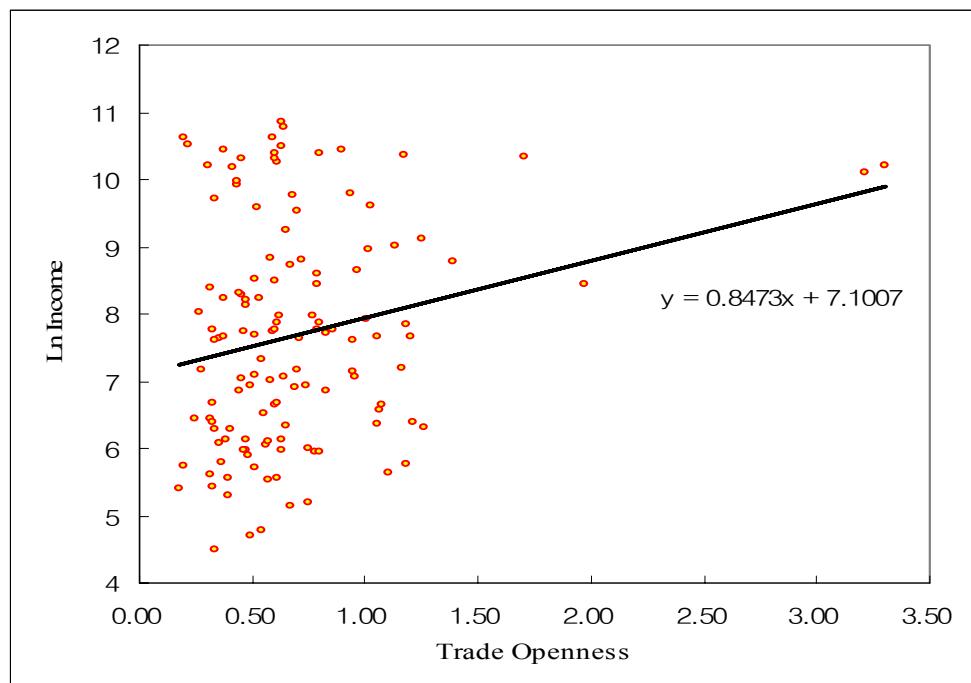
Source: *World Development Report*, 1998/99, 2000/2001, 2005, 2006, World Bank; Chen (2006); Otake (2005).

4. APEC'S GOALS AND SOCIO-ECONOMIC DISPARITY

(1) Globalization and Economic Growth

Globalization, in terms of Trade and Investment Liberalization and Facilitation (TILF), is undoubtedly an engine for economic growth and prosperity. Chart 2 shows the relationship between per capita income and trade openness among 146 economies in 2004, suggesting that higher income is associated with a higher degree of trade openness.

Chart 2: Trade Openness and Per Capita Income in 2004



Notes: The line denotes the basic trend of the relationship; per capita income in the figure is the national logarithm of per capita GNI; trade openness is the sum of exports and imports divided by GDP.

Source: *World Development Report*, 2006, World Bank.

There have been many research outcomes showing consistent evidence that *trade raises income*, beyond indicating a simple positive relationship between trade and income. Frankel and Romer (1999) revealed that a rise of one percentage point in the trade openness of a country is associated with an increase in the per capita income of between one-half and two percent in a sample of 63 countries. It was also reported that 10 percentage points of higher openness was associated with a four percent higher per capita income on average in OECD countries (Bassanini and Scarpetta 2001).

(2) Globalization and Socio-economic Disparity

With regard to globalization and income inequality, however, we do not have a unequivocal answer to the question of whether globalization raises income inequality within a country. Theoretically, free trade may hurt low-skilled workers in a country where high-skilled labor is relatively abundant, leading to widening income disparity in developed countries, while improving income distribution in developing countries with an abundance of low skill labor. On the other hand, there are many other

reasons for widening income disparity in the developing countries, due to a scarcity of skill-biased technology and human capital. Feenstra and Hanson (1996) argued that narrowing wage inequality in the course of globalization in the developing economies cannot be supported, as the prevailing movement of production facilities from the developed economies to the developing ones creates widening disparity in the developing countries. Torres (2006) reports that earning inequality has increased but that trends in household income inequality are more mixed in OECD countries.¹¹

We have a series of observations that globalization in terms of trade and investment openness may have a substantial impact on growing income inequality. Regardless of developed or developing economies, globalization is reported to bring about significant economic and job insecurity (Rodrik 1998).¹² Some developing countries with higher growth rates, including China, India and transition economies have experienced widening income inequality within their economies in recent years, although almost all the income cohorts have enjoyed an increase in real income. Another branch of research argues that trade is a factor in widening income inequality, but that it is not a major factor: Katz and Autor (1999) reported that trade explains at most 20 percent of widening inequality in the United States, with skilled-based technological changes explaining as much as 80 percent of the rise. These findings show that while globalization may be a cause of widening income inequality, the benefits of globalization far outweigh the negatives. The aim should be to proceed with trade liberalization policies while taking care of those marginal groups least able to adjust to a rapidly-changing environment, including the opening up of domestic markets.

In this respect, we note the importance of well-designed policies and their implementation by various institutions to optimize the benefits of globalization while curbing its unwelcome side-effects. It is emphasized that the “details of the policies,” including distributional policies, should accompany any growth strategy.¹³ Torres (2006) summarizes the key points between globalization and income inequality as follows:

“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 there is a role for policies to ensure that the process is as smooth and efficient as possible.”

It is policy and institutional aspects that play a key role in harmonizing globalization and income distribution.

¹¹ “For a number of OECD countries, the trend increase in household income inequality came to a halt or even reversed in the 1990s.”

¹² In developing countries that are not equipped with an excellent adjustment program to cushion it from external shocks from trade openness, even low income workers can easily lose jobs and income distribution may worsen without social benefits.

¹³ S. Fischer (2003, 13).

(3) Socio-economic Disparity and Economic Growth

The relationship between economic growth and socio-economic disparity has been a main concern of economists and policy makers over the past 50 years. Much interest and debate has been ignited by Simon Kuznets (1955) who argued the famous “inverted U-hypothesis,” which posited a strong tendency for inequality in an economy to rise during the first phases of economic growth and then declines after a certain critical level is reached.

The “inverted U-hypothesis,” supported by the economic theories of Lewis (1954) and Kaldor (1967), was, however, challenged by subsequent empirical research in later years, arguing that there is no consistent relationship between economic growth and inequality. Many examples that conflicted with the inverted U-hypothesis were observed: The “East Asian miracle” showed a positive relationship of higher economic growth keeping pace with lowering income inequality through the whole process of economic development, while the 1980s-90s observed widening income disparity in most of the developed economies. Today, a consensus has been reached that no straightforward relationship between growth and inequality can be established. However, an examination of causality of the two directions needs to be conducted; the impact of growth on inequality and the impact of inequality on growth.

First, the impact of growth on inequality: growth may increase wage inequality. Growth can be achieved by trade liberalization and skill-biased technology changes. As mentioned earlier, traditional trade theories, such as the Heckscher-Ohlin Theory, show that economic growth through trade liberalization increases either demand for the skilled or demand for intermediate goods (which decreases demand for the unskilled) in advanced economies, causing income inequality to widen in those countries. Second, the skilled can more easily accommodate themselves to new technology, so that skill-biased technology changes can bring widening gaps in income among the skilled and the unskilled. It is notable that the growing gap in productivity gains between traditional industries and emerging ones has widened, particularly in the ICT industry. All in all, economic growth can bring about income equality in an economy, but the direct causality is still obscure. Policy or institutional considerations are called for in this regard.

Second, the impact of inequality on growth: there are still two competing arguments on the impact of inequality on growth. From the unbalanced economic growth theory, capital needs to be concentrated in exclusive groups in a society from which further capital can be created and accumulated. Thus, wider inequality can create higher growth. On the other hand, narrowing income disparity can create accelerating economic growth. From the demand side, the creation of a middle class through narrowing disparity stimulates total demand, which can lead to economic growth. From the supply side, widening disparity in an imperfect capital market curbs the full-utilization of human and physical resources available in a society, which has a negative impact on long-term economic growth (Aghion, Caroli and Garcia-Penalosa 1999 and Orszag 2006). Thus, more inequality can be a drag on growth. According to this argument, widening economic disparity not only undermines a healthy and integrated society, but is also incompatible with sustainable development or the long-term growth of an economy, which is one of APEC’s priorities.

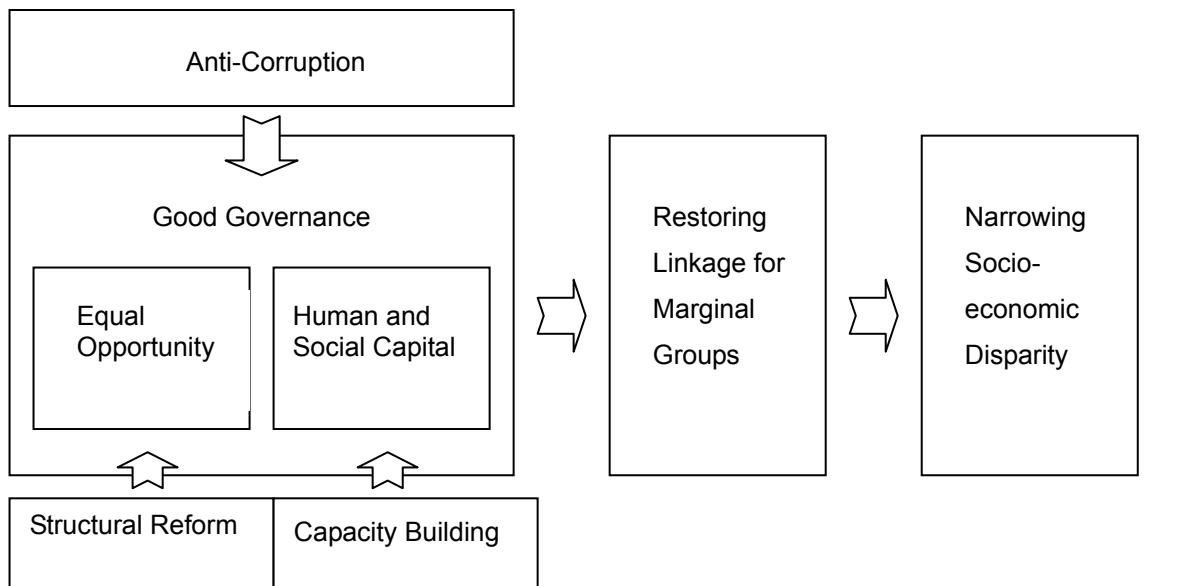
5. MEASURES FOR NARROWING SOCIO-ECONOMIC DISPARITY

As previously mentioned, widening socio-economic disparity does matter when it leads to the social and economic exclusion of a group of people within a society. In order to narrow disparity, it is necessary to construct and strengthen the linkages of marginalized groups to the economy and society.

The construction of linkages between marginal groups and society has several aspects. First, as the distribution of opportunities matters more than the distribution of outcomes (World Development Report 2006), economic, social and political opportunities should be provided equally to disadvantaged groups of people. Second, even if the groups of people are provided equal opportunities, it would be of little benefit if they cannot fully utilize such opportunities. Thus, they should be equipped with human and social capital, such as proper knowledge, experience, technology and social connections, to enjoy the benefits of a level playing field. Third, to ensure equal opportunities and equal access to human and social capital, it is crucial to create good governance in a society. In summary, providing equal opportunities, accumulating human and social capital, and building good governance are three key components to creating linkages and thus combating socio-economic disparity.

What kind of measures can be employed to achieve these three conditions? First, structural reform targeting widening opportunities to marginal groups can apply. Second, capacity building can serve to enhance the capabilities of marginal groups, which contribute to accumulating human and social capital. Finally, anti-corruption activities can be an effective means toward preserving good governance. Chart 3 describes the structure of the process of restoring linkages and tackling socio-economic disparity.

Chart 3: A Concept Diagram for Narrowing Socio-economic Disparity



(1) Structural Reform

Structural reform can make up for defects in market failures, which disproportionately affect marginalized groups by reducing socio-economic opportunities.

Structural reform can provide favorable environments for market-functioning by improving the qualities of the resources and by using them more effectively.¹⁴ Ultimately, structural reform helps minimize market failure arising from problems such as asymmetric information or policy-imposed distortions. Disadvantaged groups are more likely to be victims of these kinds of *market imperfection due to insufficient access to relevant information and weak political and social networks.*

Disadvantaged groups must enjoy equal opportunities if they are to restore and strengthen linkages with the wider society. Structural reform helps dissolve disparity by facilitating the groups' access to equal opportunity of information, credit, education, etc. With regards to this point, World Bank (2006) emphasizes the importance of perfect markets for achieving equality.

With imperfect markets, inequalities in power and wealth translate into unequal opportunities, leading to wasted productive potential and to an inefficient allocation of resources. (World Bank, 2006, 7)

Imperfect capital markets contribute to an unequal distribution of wealth by favoring people with more wealth, and by discriminating people in marginal sectors that have little initial endowment. In this case, credit may be rationed across established clients rather than a profitable investment opportunity or creative business ideas. Clarke, Xu and Zou (2006), maintained that financial market development toward market perfection would lead to narrowing income inequality. In a study of 83 countries over 35 years, between 1960 and 1995, it was found that inequality is less in the long run when financial development is greater¹⁵ The World Bank (2006) suggested evidence of underinvestment in small firms in Mexico, even though the rate of return among small firms is very high, and decreases as firm size increases. These small enterprises could reap large gains from increased investment.¹⁶

Structural reform aims at enhancing efficiency in the public sectors, which is crucial for the promotion of disadvantaged groups.

Structural reform should enhance efficiency in the public sector, a crucial prerequisite for disadvantaged groups to enjoy equal opportunities. Education in particular is becoming more important in creating human capital in a society. Low quality public education systems and failures in school management are felt most by marginal groups in society because they tend to more heavily rely on public schooling. Consequently, marginal groups benefit most from reforms in the public educational system, such as evaluation of school facilities, teaching, scholastic achievement, etc. Competition in the public education system is recommended. Structural reforms that tackle deficiencies in the system can make an important contribution to lifting marginal groups and realizing equal opportunity.

¹⁴ Urata (2005) defined structural reform as a process which can improve qualities of resources and use them more effectively.

¹⁵ The result is consistent with Galor and Zeira (1993) and Banerjee and Newman (1993) who showed theoretical models that financial market imperfections perpetuate the initial wealth distribution, resulting in a negative relationship between financial development and income inequality even in the long run.

¹⁶ World Bank (2006), pp. 96-97.

Other public sector reform can also contribute to solving regional disparity. Typically, backward regions are relatively more dependent on public economic activity than private enterprise activity. Thus, government failures such as management crisis, moral hazards and ill-designed government policies affect marginal groups disproportionately, and it is these groups that are more vulnerable to failure.

In conclusion, the phenomenon of socio-economic disparity is closely correlated to the overall structure of a society or an economy. However, appropriate structural reform can bring about changes in the social and economic structures and achieve equal opportunity for the benefit of people in marginal or disadvantaged sectors.

(2) Capacity Building

To ensure socio-economic inclusion and restore linkages to society, disadvantaged groups need to build their capacity to enjoy the benefits of globalization and liberalization beyond being provided equal access to social, economic and political opportunities. Building human capacity in disadvantaged groups is dependent on the accumulation of human and social capital.

Creating human capital in disadvantaged groups is a long standing challenge, but one which has been difficult to achieve. First, there are huge externalities in the diffusion of knowledge in a society, but isolated and disadvantaged groups are usually less able to enjoy the benefits of these externalities. Second, the government has an important role to play in the accumulation of human capital in disadvantaged groups, but in many cases, government efforts in this regard have not been successful. Third, it is more difficult for disadvantaged groups to enhance human capital through social networks, as they face considerable barriers to building such networks.

Capacity building requires an emphasis on social as well as human capital, the former being much more difficult for disadvantaged groups to create.

According to Dasgupta (2005), social capital is best viewed as a set of interpersonal networks. But the concept of social capital is complex, encompassing both personal networks and impersonal public institutions.¹⁷ Social capital is particularly important in the context of interpersonal networks, as the network is class-specific in nature. It is argued that the accumulation of human capital in disadvantaged groups is particularly difficult to achieve, because people in disadvantaged groups often do not have the necessary social networks.

(3) Anti-corruption

Corruption is “the abuse of public or private office for personal gain.” It involves behavior on the part of officials in the public and private sectors, in which they improperly and unlawfully enrich themselves and/or those close to them, or induce others to do so, by misusing the position in which they are placed (ADB 1998).¹⁸

¹⁷ Dasgupta (2005, S19).

¹⁸ Social capital as interpersonal networks is often compared with making a group of corrupted insiders, but the two concepts have fundamental difference, as the interpersonal network composing social capital does not exclude others based on illegal interests.

Combating corruption is a very important issue for narrowing socio-economic disparity, as vested interest groups discriminate against the disadvantaged while seeking illegal rent.

It is well-known that corruption is harmful in many ways, not least because it can lower investment and thereby constrain economic growth (Mauro 1995). The illegality of corruption makes it much more distortional and costly than taxation (Shleifer and Vishny, 1993). Corruption erodes good governance by undermining transparency and cultivating secrecy, which deteriorates the quality of institutions. People are discouraged from making an effort to accumulate human capital if they recognize that corruption offers a better chance for promotion.

Inevitably, corruption produces exclusive vested interests, a society of “insiders” and “outsiders”. Disadvantaged groups, excluded from a circle of corrupt insiders, cannot gain equal access to credit, information, and other social and economic capital. Therefore, bold measures to combat corruption can help restore disadvantaged groups’ linkages to a society/economy. Anti-corruption activities can be an important measure for narrowing socio-economic disparity, advocating social justice and pursuing economic growth and prosperity.

6. POLICY EXPERIENCES OF THE APEC ECONOMIES AND EVALUATION

(1) APEC's Ongoing Efforts and Activities Combating Socio-economic Disparity

Socio-economic disparity is relevant to APEC's ongoing activities, and APEC has provided frameworks for combating disparity and conducted activities regarding the issue.

Socio-economic disparity is a cross-cutting issue that is relevant to many areas of the policy agenda. As mentioned before, structural reform, capacity building and anti-corruption measures are among the key policies for narrowing socio-economic disparity. APEC has already conducted many activities related to these three areas. Several APEC fora such as the Economic Committee (EC), the Social Safety Net Capacity Building Network (SSN-CBN), the Human Resource Development Working Group (HRD WG), and the Anti-Corruption and Transparency Task Force (ACTTF) directly address socio-economic disparity issues.

APEC's ongoing activities need to emphasize the relationship between policy and disparity, and develop policy agendas for the activities of each committee and working group.

APEC's ongoing activities in the EC, SSN-CBN, HRDWG, and ACTTF can contribute to narrowing socio-economic disparity in the APEC region, but the activities have not addressed the issue of disparity per se. The importance of structural reform has been emphasized because it can help encourage further trade liberalization and the economic advancement of the APEC economies, but there has been no direct consideration of socio-economic disparity. Capacity building is important for fighting poverty, which is an important challenge for the APEC region, and an important tool in addressing the consequences of globalization. However, capacity building is also one of the most effective tools for narrowing disparity, concentrating on assistance to marginalized groups. Similarly, it is well understood that anti-corruption measures are crucial for achieving good governance, as well as economic growth and development. The fight against corruption practices is also integral to efforts to improve the position of marginalized groups, engaging them in the virtuous cycle of economic activities in a society. Each of APEC's ongoing activities that have relevance to the disparity issue is introduced below:

Structural Reform

The Economic Committee (EC) has played a pivotal role in promoting structural reform in APEC since 1994, when it was established at the 6th APEC Ministerial Meeting in Jakarta, Indonesia. It undertakes policy analysis and action-oriented work related to structural reform. Currently, one of the priorities of the EC's main work plan is the Leaders' Agenda to Implement Structural Reform 2010 (LAISR 2010):¹⁹

The EC's structural reform activities are based on the EC's Work Plan on LAISR toward 2010 (LAISR 2010). This work plan aims to develop a "whole of APEC" approach for carrying out structural reform activities in APEC that is consistent with the Leaders' Agenda to Implement Structural Reform. The objective of LAISR 2010 is to set out a road map for addressing structural reform issues in APEC.

Major activities on structural reform in 2006, identified and implemented by the EC, include a self-assessment using the APEC-OECD Integrated Checklist on Regulatory Reform and the sharing of experiences from the self-assessment, a Public Sector Governance Seminar (a part of the APEC

¹⁹ Refer to the homepage of the EC at http://www.apec.org/apec/apec_groups/committees/economic_committee.html)

Work Plan toward LAISR 2010), a study on Trends and Perspectives on Human Capital in APEC²⁰ and the development of structural reform indicators.

Strengthening Social Safety Nets and Capacity Building

The Asian financial crisis deepened the marginalization of certain groups in those economies worse affected by the crisis. As early as 1998, APEC ministers acknowledged the impact of the crisis on the disadvantaged. The Finance Ministers' Meeting in 1998 recognized the importance of social safety nets in the context of financial crises.²¹ The 1998, 1999, 2000 and 2001 APEC Leaders' Agreements emphasized the urgency of strengthening social safety net to reduce harmful effects on vulnerable groups. The Beijing Initiative on APEC Human Capacity Building in 2001 addressed the capacity building issue.²²

APEC initiated SSN-CBN in 2001, and it was officially launched in 2002 in Seoul, with linkages to the HRD working group. This was one of the concrete measures agreed upon by the APEC members. The APEC symposium on Strengthening Social Safety Nets under Rapid Socio-economic Changes was held in Seoul in August 2005, and found that globalization and liberalization needed a complementary social agenda to ensure that change was brought about smoothly, so as to maximize the benefits of globalization and liberalization for all.²³ In 2005, the HRD working group established a learning community and a stable supporting system for educational development with its APEC e-Learning Training Program as well as the Strategic Action Plan for English and other languages in the APEC region.²⁴

Transparency and Anti-corruption

The Committee on Trade and Investment (CTI) produced the Osaka Action Agenda in 1995. The 2001 Shanghai Accord includes three sub-committees on Customs Procedures, the Government Procurement Experts Group and the Business Mobility Group, which help enhance transparency and anti-corruption.

Following the instruction of the APEC Leaders in Santiago in November 2004, ACTTF (the Anti-Corruption and Transparency Experts Task Force) was established in 2005 and its first meeting was held in Seoul in September of 2005.²⁵ In November 2005, APEC Leaders endorsed the ACT Deliverables and reaffirmed that APEC will intensify regional cooperation to deny a safe haven to officials and individuals guilty of corruption, those who corrupt them and their illicitly acquired assets, and to prosecute those engaged in bribery, including in international business transactions.

²⁰ It will include the relationship between human capital issues and structural reform.

²¹ "...an assessment of... policies...including measures to strengthen social safety nets to help cushion the impact of the crisis on the poor (1998 FMM)."

²² "They placed particular stress on the importance of human capacity building to ensure that all people could benefit from these goals and on partnerships across the widest spectrum of stakeholders to develop the necessary policies and programs to respond to this human capacity building challenge... APEC should develop an integrated strategy for human capacity building through evolving cooperation, drawing on the experiences within the region and taking into account the diversity of APEC members in terms of development experiences, cultures and traditions."

²³ APEC EC (2006), p9. APEC SOM Committee on ECOTECH (2005) classifies SSN-CBN activities into two types: Information Exchange and Dissemination of Effective Practices for Better Social Safety Net Delivery. These activities include the six major areas: pre-crisis social safety net planning and prevention measures; capacity for evaluating effectiveness of policy action; collection of disaggregated data and access to current data; identifying at-risk populations; designing response institutions and financing; and strengthening transparency and accountability in social safety net operations.

²⁴ APEC EC (2006, 9).

²⁵ Promoting collaboration among the APEC member economies...is considered one of the priority areas of the TF (2005/ACTTF.SYM/023).

APEC Leaders welcomed the signing of the ABAC Anti-corruption pledge by CEOs at the APEC CEO Summit and encouraged public-private partnership in this campaign.²⁶

Concurrently, anti-corruption measures for the development of SMEs were highlighted, as corruption has a disproportionately negative impact on SMEs and MEs (APEC project for 2006 and SME anti-corruption capacity building workshop in February 2006). The integration of anti-corruption activities with capacity building is also important.

(2) Member Economies' Policy Experiences Combating Socio-economic Disparity

Chile

The policy experience in the Chilean case is characterized as "Growth with Equity."²⁷ Following a period of higher economic growth in the 1990s, Chile adopted a pro-growth and pro-equity two-track strategy. A pro-growth strategy of domestic market opening, conservative fiscal policy, capital market deepening, labor market reform and tax liberalization has been promoted together with the expansion of some social expenditures related to education and health care for disadvantaged regions and vulnerable groups. The first phase of the poverty reduction policy seems to have been a success, supported by policies to increase the minimum wage, improve family allowances and subsidies, invest in educational institutions in backward regions, etc.

Chile's experience holds some useful implications with regard to the disparity issue. First, strong action on expanding social expenditure targeting marginal groups and a bold pro-growth strategy can be mutually reinforcing. Second, poverty eradication was understood to be a linkage program for marginalized groups. Third, integrated and systematic approaches are required for sustainable policy coherence. Poverty reduction and the need to improve the scholastic performance of marginal groups cannot be solved by governmental efforts and educational institutions alone; they relate to the local community and family as well.

China

China has experienced drastic changes over the past 30 years in terms of income disparity as well as economic growth: disparity widened both among rural and urban areas and between coastal provinces and interior ones, even as absolute poverty has been diminishing at an unprecedented speed. China has developed a wide variety of social security systems, including social insurance (pension insurance, unemployment insurance, medical insurance, work-related injury insurance and maternity insurance), social welfare, the special care and placement system, social relief and housing services.²⁸

The Chinese government's strategy for eradicating poverty and improving income distribution is twofold: constructing basic social safety nets for the urban dweller and conducting a policy mix of both economic development and a selective social security system for rural areas. Although policies focus on providing basic necessities to the public, some proactive policies for steering unemployment insurance in the direction of promoting re-employment have been developed as well.

One of China's proactive measures to combat socio-economic disparity is its anti-corruption policy. The Ministry of Supervision (2006) maintained that the healthy economic development environment (of an uncorrupted society) is vital for developing a regional economy and enhancing productivity

²⁶ APEC EC (2006), p7.

²⁷ Gutiérrez (2006).

²⁸ Zhang and Liu (2006, 2-3).

and competitive ability. China's efforts in fighting corruption include,²⁹ i) to publish an implementing program for building and perfecting a system for the punishment and prevention of corruption with equal emphasis on education, institution and supervision, ii) to formulate regulations on the honest administration of public servants to avoid any potential conflicts of interest, iii) to deepen system reform and innovation, and establish a control mechanism over the exercise of power, iv) to seriously investigate and prosecute the corruption cases, and crack down on corruption activities in all fields, v) to make commercial bribery a priority among China's anticorruption policies, vi) to improve the citizen participation mechanism and support the social and public efforts to combat and prevent corruption, vii) to promote international anti-corruption cooperation.

Japan

Several public opinion polls conducted in Japan suggest that the majority of the Japanese people feel that economic inequality has expanded. However, the moderate increase in income inequality in terms of the Gini coefficient is mainly the result of the demographic pressures of an aging population and falling household size.³⁰ Inequality in housing and ownership of residential land and financial assets decreased due to the recession of the 1990s. Problems, however, may arise due to widening disparity among younger people. There have been substantial increases in the numbers of young people who are part-timers, not in any form of employment or not in education training.

The Japanese government emphasizes policy responses to the aging population, low-fertility rate and youth unemployment, based on the above-mentioned evaluation of disparity in Japan.³¹ Much emphasis has been laid on the areas of childcare which support the female participation rate. The policies try to encourage close connection of childcare to the local community. To curb the increase of NEET (Not in Education, Employment and Training), and "Freeters" (young underemployed or freelance workers with free time on their hands), the Japanese government established a one-stop service center called Job Center and developed an action plan for the transformation of part-time jobs to full-time ones.

From the policy experiences of Japan, the linkages of marginal groups such as NEET/Freeters and single women with children to society are important. In addition, the Japanese government places the improvement of government services related to social services as one of its top priorities, as it is directly connected to the success of the reform policies.

Korea

Disparity in Korea³² will persist and is likely to be amplified by a combination of global trends (globalization, and technology change), ill-adapted industrial structures (weak competitiveness among SMEs and an over-extended self-employment sector), and policy factors (backlogged reform procedure, imprudent promotion of startups and inadequate social safety nets), all of which are not easy to solve in the short term. Proactive and innovative policy responses from a long-term dynamic perspective are required.

Korea proposes four policy agendas: nurturing global leaders, galvanizing stagnant domestic players, upgrading and preserving human resources, and cultivating emerging markets in social services. In order to nurture global leaders, the promotion of knowledge-intensive services such as business services, culture industries and education need to be conducted, together with regulatory reform, new labor relations and strategic investment, inward and outward. Stagnant domestic

²⁹ Ministry of Supervision (2006, 1-5).

³⁰ Otake (2005) and Tanimoto (2006).

³¹ For more details, see the Cabinet Office (2005).

³² Woo (2006) represents the Korean view here.

players such as SMEs and self-employer sectors are targeted for upgrading with financial and technological support and market-based restructuring. To upgrade human resources, an active labor market policy (ALMP) needs to be developed in Korea, in addition to providing a social safety net. Expanding social services and nurturing social enterprises are necessary to cultivate emerging markets in social services.

Korea's policy agenda for narrowing disparity heavily relies upon structural reform and capacity building. Structural reform measures include market-oriented restructuring to upgrade SMEs and regulatory reform for supporting global leaders. Capacity building measures include introducing a technical support system for SMEs, ALMP for the unemployed, job education for expanding social services and bringing personal home-bound services into the market.

New Zealand

The Social Report published by the Ministry of Social Development reviews the landscape of the level and distribution of social wellbeing of New Zealanders. The purpose of the Social Report is to provide measures of wellbeing and quality of life, and to give greater transparency and inform public debate. It has 10 desired social outcomes or outcome domains and uses 42 indicators to describe social conditions.³³

The Social Report covers a variety of socio-economic disparity issues. For measuring socio-economic disparity, it uses income inequality and poverty indicators. It provides information on unemployment/employment and wage levels, as well. For education and human capital, a range of indicators is used, such as participation in early childhood education, literacy, participation in tertiary education and school qualifications. One of the most striking features in the Social Report with respect to socio-economic disparity is the inclusion of a measure on social capital, involving cultural identity as well as political and social connectedness. Cultural identity includes the Maori's involvement in the media and language issues. Voter turnout measures political connectedness, and social connectedness is represented by regular contact with family/friends, trust in others, and contact between young people and their parents. A corruption measure is also included in the report.

New Zealand's Social Report provides several useful implications; the review of the current state of social and economic wellbeing provides an important starting point for identifying legacy problems in the disparity issue. Moreover, the report's precise and balanced description of the current states lends itself to policy prescriptions. Similar, international comparisons with other OECD countries would help benchmark the state of welfare in each economy.

Thailand

Thailand formally acknowledged the disparity issue in its 5th National Economic and Social Development plan (1982–84).³⁴ At that time, reducing disparity was thought to relate primarily to rural development, and this, rather than tackling policy directly, was the focus. Human resource development was stressed in the subsequent 6th national development plan.

³³ The 10 domains include health, knowledge and skills, paid work, economic standard of living, civil and political rights, cultural identity, leisure and recreation, physical environment, safety, and social connectedness. Indicators are employed to provide information on the relevant domain. In the domain of "Economic Standard of Living," for instance, there are six indicators of market income per person, income inequality, population with low incomes, population with low living standards, housing affordability and household crowding.

³⁴ Teanravisitsagool (2006).

It was at the time of the financial crisis that socio-economic disparity emerged as one of the central strategic processes. After the financial crisis, Thailand moved away from the EAEM (East Asian Economic Model), and adopted a dual track development model, focusing on global reach and local links. The first track emphasizes foreign direct investment and manufactured exports under economic integration with the rest of the world, while the second track supports strengthening the micro-foundation of the domestic economy including supporting SMEs, implementing housing projects and life insurance schemes for low incomers, establishing a People's Bank and banks for SMEs, creating village funds, etc.

Mexico

Mexico's social programs have evolved during the last decade to become more transparent and accessible to vulnerable groups in society, based on the principle of shared responsibility and the active participation of the beneficiaries, government and civil society.

The main objective of Mexico's Social Policy is human development, dealing not only with the consequences of poverty, but also with its causes. The social strategy implemented during the last six years has included social programs that build basic capacities by increasing the human capital assets of people in poverty, creating opportunities for income generation, providing social protection and access to physical assets such as housing and land tenure in order for poor families to build their own patrimony.

The conceptual framework of the strategy is based upon the following principles. Firstly, strengthening people's skills and abilities by providing education, health services and good nutrition will help develop their potential. Secondly, providing social protection to reduce vulnerability will help ensure that the creation of skills and abilities as well as the generators of income do not fail in case of unexpected events. Thirdly, creating the conditions for widening access to the financial system and financial services enhances people's patrimony and heightens their financial security and their ability to invest.

The social policy strategy set out since 2000 has been successful in fighting poverty. Mexico has identified three types of poverty: nutritional poverty – not enough income to buy a food basket; capacities of poverty – not enough income to allow access to education and health, and patrimonial poverty – not enough income to cover transport and clothing. The Mexico government reports that nutritional poverty was reduced by 23.7 percent, capacities of poverty by 17.6 percent and patrimonial poverty by 6.6 percent from 2000 to 2004.

7. POLICY IMPLICATIONS AND DIRECTIONS

A basic direction for narrowing socio-economic disparity is to restore the linkages within a society.

A narrow concept of social security including public assistance has clear limitations in combating widening socio-economic disparity. Accumulating human capital in a society is important in encouraging economic growth and prosperity, but to solve widening disparity it is also necessary to make large investments in marginalized groups, to create and accumulate human capital in the most disadvantaged parts of the society.

Capacity building will help alleviate disparity, but it is insufficient on its own. Economic reform and anti-corruption measures are needed to bring about the full utilization of the public's capacity. Over the medium term it is important to target the poorest groups and the poorest regions and to maintain a certain amount of social mobility.

It is noteworthy that APEC and its member economies' ongoing economic and social policies have contributed to tackling disparity.

APEC has done sterling work in creating and developing measures to address issues related to disparity. The organization aims to revisit ongoing efforts in order to develop further policy measures. Several APEC fora such as the Economic Committee (EC), the Social Safety Net Capacity Building Network (SSN-CBN), the Human Resource Development Working Group (HRD WG), and the Anti-Corruption and Transparency Task Force (ACTTF) are among the many relevant organizations in APEC that directly address socio-economic disparity issues.

However, a comprehensive and target-based strategic policy mix among the member economies and APEC levels needs to be developed to deal with disparity in the future, and eventually contribute to the Bogor goals and the prosperity of the APEC region.

The importance of structural reform has been emphasized in many APEC fora, but with little consideration of socio-economic disparity. Capacity building is important for fighting poverty, but the issue of capacity building needs to be given more prominence as one of the most effective tools for narrowing disparity. Similarly, anti-corruption and transparency are acknowledged as crucial elements of good governance, economic growth and development, but they should be recognized as means to assist marginalized groups to become better linked to the virtuous cycle of economic activity within a society. It is important to re-interpret all ongoing activities according to the objective of alleviating disparity in order to contribute to and enhance the effectiveness of the activities in the APEC fora.

In addition to the re-interpretation of ongoing activities, however, a new policy agenda should be created to combat the widening of socio-economic disparity. A comprehensive and target-based strategic policy mix among the member economies and APEC levels needs to be developed to deal with disparity now, and in the future. In addition, policy coordination among government organizations within an economy needs to be emphasized.

It is firmly believed that the policy experiences of each member economy should be shared, for the mutual benefit of all.

From the policy experiences of the APEC economies, we can identify the following best practices: First, bold actions on expanding social expenditure targeting marginal groups accompanied by pro-growth policies, proved to be successful in generating higher economic growth. Second, poverty

eradication policies should address fault lines in the important linkages that connect marginalized groups with wider society. Third, integrated and systematic approaches are required for sustainable policy coherence. Poverty reduction and the improvement of scholastic performance among marginal groups cannot be achieved only through governmental efforts or schools, as they are also related to the local community and family. Fourth, it is maintained that the healthy economic development environment of an uncorrupted society is conducive to developing a regional economy and enhancing productivity and competitiveness. Thus a “zero tolerance” policy toward corruption is recommended. Fifth, the provision of social services needs to be a top priority as they are directly connected to the chances of success of reform policies. Sixth, it would be useful to comprehensively document the current state of social and economic wellbeing, as this would be a very good starting point for identifying existing problems in the disparity agenda. A precise and balanced description of the current situation can reveal clear policy directions in many cases. And finally, international comparisons with advanced economies such as the OECD may be a good benchmark for measuring the welfare of the APEC economies.

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ANNEX 1

**APEC SYMPOSIUM ON SOCIO-ECONOMIC DISPARITY
SEOUL, KOREA
28–29 JUNE 2006**

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The symposium on Socio-Economic Disparity, co-sponsored by the Ministry of Foreign Affairs and Trade of Korea and the Korea Institute for International Economic Policy was held on 28–29 June at the Shilla Hotel in Seoul, Korea. The two-day symposium was held under the title “APEC Symposium on Socioeconomic 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, Korea, Malaysia, New Zealand, Peru, the Philippines, Russia, Singapore, Chinese Taipei, Thailand, the United States and Viet Nam. Non-APEC members, including a speaker from Belgium and international organizations such as OECD also attended the meeting.

The symposium was divided into five sessions, including the opening and closing sessions, led by 18 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 Toward an APEC Community,” “Wrap-up & 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 Korea, Minister Duck-soo Han. Mr. Han made it clear that this symposium was the answer to President Roh Moo-Hyun’s suggestion of examining socio-economic disparity that appears with liberalization and sustainable growth, the entitled goal of APEC economies for co-prosperity. Mr Le Cong Phung, first deputy minister for foreign affairs of Viet Nam 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 Orszag, the director of Hamilton Project, Brookings Institution, pointed out the failure of conventional research theories such as “yo-yo” (“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 shows various patterns locally 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 the income disparity has diminished from a global point of view but that it was socio-politically problematic at the local level.

Four speakers all agreed that the world produced more wealth and that poverty has diminished in general; however, socio-economic disparity has also increased. It threatens co-prosperity and

sustainable growth. It was emphasized that the problem should be examined. 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 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 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 Dean, he argued that according to the UN Human Development Index (HDI), which is a comparative measure of poverty, literacy, education, life expectancy, child birth 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 indirectly has 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 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 in 1980 to 6.07 times in 2003. Widening income differentials is certainly not unique to Chinese Taipei; it seems to have become a ubiquitous phenomenon worldwide. Tracking the parallel changes in income distribution is definitely a complicated task. Income inequality is hard enough to measure in the developed countries, 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 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, one which blends 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 Korea, Chile, China, Japan, New Zealand, Peru and Thailand introduced their economies' experiences on socio-economic disparity. Dr Woo Cheon-sik (KDI, Korea) explained that Korea expanded its economy to overcome 1997's financial crisis; but this increased its disparity problems such as unemployment, income polarization and growing social tension. Policy thus far has not been effective enough to appease this 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, Commercial Attaché from the embassy of Chile in Korea, reviewed the favorable results of Chile's "growth with equity" policy: high economic growth, higher minimum wages and income distribution. This experience has shown that social expenditure has a very important effect on an overall socio-economic environment; social policy can be a more effective key to reducing socio-economic disparity than economic growth. Mr. Gutierrez 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 and medical expenditures, 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 social security services.

Mr Nobutaka Tanimoto considered economic inequality in Japan in his presentation. He argued that economic inequality often expresses itself as a social phenomenon. Although the disparity of income, property, etc. are factors in the rise of economic inequality, the most important influences cannot be found in the statistical data. As middle-class consciousness is deep-rooted in Japanese society, the impact of rising inequality has yet to have an impact on individual consciousness. However, changes to the younger age group's employment/lifestyle prospects, (such as "Freeters") can become a factor in inequality, which needs to be acknowledged.

Mr Ross Judge discussed socio-economic disparity in New Zealand. New Zealand has four million people—1/12th the population of Korea, but three times the land area. New Zealanders mainly originate from European immigration starting in 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 Korea. New Zealanders mainly live in urban areas despite its reputation as a pastoral nation and the fact that major exports are 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 10 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 Javier Edmundo Abugattas from Peru continued by discussing the complexity of the 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. There has been insufficient action in areas such as employment, antenatal and postnatal care and local management capacity. Models to improve the socio-economic disparity issues 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 urgently needed to tackle these two issues in economies where disparity is high.

Finally, Dr Pattama Teanravisitagool presented the socio-economic disparity issue in Thailand. The Thai economy has moved from a high growth period in the 1980s and early 1990s to a more moderate growth path with restored economic stability after the financial 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 relative to short-term foreign debt and imports. However, rising oil prices since 2004 have placed Thailand at risk. The economic situation was worsened by a drought in late 2004 that continued into 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 reversed itself and increased in 1998 to 2000. The North and Northeast suffered most during the financial crisis. This is directly linked to factory laid offs. The poverty incidence has improved since 2002, due to robust economic recovery. However, 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 districts and municipal areas. Mr Teanravisitagool concluded the session by discussing Thailand’s movement away from EAEM (East Asian Economic Model) to a Dual Track Development Model, focused on global reach and local linkages to solve the socio-economic disparity.

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

Dr Fraser Cameron began session 3 with his presentation on *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, improving 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, that implies a market economy produces great overall wealth within which winners and losers are

created, 2) the “macro-,” or international level, that there is increased openness, transparency and trade. The second one is the fundamental premise of this symposium. The US’s 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 18 APEC economies, the US 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. 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 bring positivism in the economy, narrowing disparity. It is also important to protect social capital from corruption.

5. Session IV. Wrap-up & 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.

ANNEX 2

ABBREVIATIONS

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ABAC	APEC Business Advisory Council
ACTTF	Anti-Corruption and Transparency Experts Task Force
ALMP	Active Labour Market Policy
APEC	Asia-Pacific Economic Cooperation
CTI	Committee on Trade and Investment
EC	Economic Committee
FTA	Free Trade Agreement
GE	Generalized Entropy
HDI	Human Development Index
HRDWG	Human Resources Development Working Group
ICT	Information and Communication Technologies
LAISR	Leaders' Agenda to Implement Structural Reform
MOFAT	Ministry of Foreign Affairs and Trade
NEET	Not in Education, Employment and Training
OECD	Organisation for Economic Co-operation and Development
SSN-CBN	Social Safety Net Capacity Building Network
TILF	Trade and Investment Liberalization and Facilitation
KIEP	Korea Institute for International Economic Policy