



A worker at a garment factory in Vietnam. Oxfam interviewed women and men who work at a garment factory in Vietnam 12 hours a day, six days a week. Despite their long hours, low pay means they still struggle to get by, all while producing clothes for some of the world's biggest fashion brands. Photo credit: Eleanor Farmer/Oxfam

# REDEFINING INCLUSIVE GROWTH IN ASIA

## How APEC can achieve an economy that leaves no one behind

In November 2017, leaders will gather in Vietnam for the Asia-Pacific Economic Cooperation summit. The last few decades have seen impressive growth and poverty reduction across Asia, but inequality is on the rise and the benefits of growth are increasingly going to those at the top. This paper sets out how APEC leaders can use the opportunity of the summit to move in a new direction – one in which the economy works for everyone, not just the few.

# EXECUTIVE SUMMARY

As leaders gather in Vietnam for the Asia-Pacific Economic Cooperation (APEC) summit in November 2017, they face a region divided as never before between rich and poor. After decades of leading the world in growth that benefited everyone, Asia today is rapidly becoming a region of haves and have-nots. We see this in the stark examples of wealth inequality in APEC members in Asia:

- In Indonesia, the four richest men have more wealth than the poorest 100 million people.<sup>1</sup>
- In Vietnam, 210 of the country's super-rich individuals earn more than enough in one year to lift 3.2 million people out of poverty and end extreme poverty.<sup>2</sup>
- In the past two decades, twelve countries, accounting for 82% of the region's population, have registered an increasing gap between rich and poor.<sup>3</sup>

Across the region, millions struggle with ill health, especially women, while the rich can buy the best healthcare. The United Nations Population Fund (UNFPA) reports that around 85,000 women across Asia and the Pacific die every year as a result of complications from pregnancy and child-birth.<sup>4</sup> Ninety percent of these deaths could be prevented by good quality maternal care.

Poor families struggle to send their children to school beyond the primary grades. In Indonesia, although the government is able to provide primary education for all, little more than half (55%) of children from poor families are able to continue to secondary school.<sup>5</sup> Sixty percent of the population in Asia and the Pacific have no social protection.<sup>6</sup> This is not surprising, especially in Asia, where social protection services account for only 6.9% of public spending, compared to 20% in advanced economies.<sup>7</sup>

Close to two-thirds (63.5%) of the world's working poor – those who live on less than \$3.10 a day – are in Asia and the Pacific.<sup>8</sup> For many of these workers, wages are their main source of living. Unfortunately, they earn only a fraction of what they need to meet the essential requirements of a decent life. In many supply chains, wages are deliberately kept low in order to maximize profits for companies. A look into the global supply chain in the garment sector shows that for every T-shirt sold, the wages paid to garment workers account for only 0.6% of the cost of the shirt, while 59% goes to retailers and 12% goes to the brand.<sup>9</sup> In the banana supply chain, workers in farms and plantations get 7% and producers get 13%, while retailers capture about 41% of the value of the commodity.<sup>10</sup> These examples emphasize existing inequalities in supply chains, which underpin the bigger problem of poverty and the ever-widening gap between rich and poor.

Current tax policies are not generating enough revenues for governments to deliver the services essential to eliminating poverty and addressing inequality in line with the Sustainable Development Goals (SDGs). In

fact, the desire to attract investors is fuelling a race to the bottom approach among countries when it comes to corporate taxes. In Asia, the average top marginal corporate income tax rate declined from 31.3% in 2003 to 21.4% in 2017, as governments in the region tried to woo business to invest and operate in their respective countries.<sup>11</sup> Indonesia plans to reduce its corporate income tax rate from 25% to 17%, while the Philippines intends to cut corporate income tax by 20% in 2019,<sup>12</sup> despite the fact that there is no solid proof that lowering tax rates readily translates into higher investor interest. Unfortunately, slashing corporate taxes puts pressure on governments to increase indirect taxes such as VAT, which tends to pass on the bulk of the tax burden to poor people.

For APEC leaders, the meeting in Vietnam is an opportunity to blaze a trail to a new and exciting goal – an economy where no one is left behind, where all people – women, workers, farmers and fishers, and not only a fortunate few – gain from economic growth. It is a chance to help build an economy and society where women enjoy the same opportunities and benefits as men, where everyone has access to essential services and productive resources, and where workers' wages are enough for them to live a decent life. This would build a more *human economy* to deliver a fairer world, for the workers of today, while safeguarding earth's finite resources for the safety and well-being of future generations.

APEC leaders agreed that inclusive growth should take centre stage in the coming leaders' meeting. The Vietnamese government, which hosts this year's meeting, underscored the importance of promoting economic, financial and social inclusion as strategies to achieve inclusive growth, noting the close links between these three pillars and the need for APEC to develop a holistic approach to promote inclusion in these areas.<sup>13</sup>

The first step in promoting inclusion is to make sure that people have a voice and the space – to borrow a phrase from a popular musical<sup>14</sup> – 'in the room where it happens'. In order to ensure that development plans address the needs of the poorest and most vulnerable, the poorest and most vulnerable must have a say in policy and decision making, especially on matters that affect them most.

Oxfam's Commitment to Reduce Inequality Index, which measures governments' commitment to reducing the gap between rich and poor, shows that there is much room for governments to improve policies on social spending, progressive taxation, and wages and labour rights, especially for women.<sup>15</sup> Enhanced policies in these areas will go a long way in narrowing the inequality gap and creating an economy where everyone gets a fair share in development. Additionally, Oxfam's experience working with partners shows that there is a wealth of grassroots initiatives to address poverty and inequality in an inclusive and sustainable manner. Working with civil society groups and people's organizations can help scale up these initiatives and their positive impact in the fight against poverty and inequality.

Oxfam proposes an eight-step plan to help address inequality:

1. **APEC leaders must recognize that rapidly growing inequality is a serious threat to growth and prosperity in the region.** They should agree to all set national timebound targets to reduce the gap between rich and poor, in line with their commitments under Sustainable Development Goal 10.
2. **Work together to avert the race to the bottom in corporate income taxes and to put a stop to tax evasion and tax dodging.** APEC must foster regional cooperation to enhance tax administration capacity, improve tax productivity, promote the use of progressive taxes, and build more efficient and more transparent tax collection systems. This cooperation should include sharing information on best practices related to tax administration, income flows and other relevant data.
3. **Agree to increase resources for social spending, especially for essential services.** APEC leaders must commit to allocating resources and setting clear targets to improve and expand education and health services. They should respect global targets to spend a minimum of 15% of their budgets on health and 20% on education.
4. **Promote living wages; protect and respect human and labour rights.** APEC leaders should legislate the use of living wages as a central component of APEC's strategy to promote economic inclusion. APEC should push member governments to live up to the Bali Declaration on labour rights and the UN Guiding Principles on Business and Human Rights. It should create tough mechanisms to monitor and ensure the implementation of labour laws, and especially eliminate gender discrimination in the workplace.
5. **Support MSMEs that expand women's choices, especially those led and owned by women.** APEC should support MSMEs that expand women's choices by ensuring and expanding their access to credit and capital, and by investing in capacity building for women, particularly on enterprise development and management. Equally important, APEC must encourage its member countries to extend and expand public services aimed at supporting care work. This will help women address time poverty, allow them to invest time and energy to establish and manage enterprises, and expand women's life choices beyond economic empowerment.
6. **Uphold direct citizen engagement in APEC pillars for inclusion.** APEC leaders should promote direct citizen engagement and people's empowerment in all three pillars of social inclusion – economic, social and financial. APEC can help do this by (among others) ensuring that the views of communities contribute to decision making, especially on matters that directly affect them; making sure that workers are represented in corporate structures; and by expanding and developing financial services that respond to the needs of poor people.
7. **Create an APEC stakeholders' engagement mechanism so that representatives from people's organizations and civil society groups can participate in and contribute to APEC processes, enabling APEC to demonstrate the spirit of inclusion.** The Vietnamese government, as this year's leader of APEC, should use

the meeting as an opportunity to help institutionalize mechanisms or platforms whereby governments and other stakeholders can formally engage and participate in policy dialogues and formulation. The creation of these mechanisms will demonstrate APEC's commitment to inclusion.

8. **Encourage and support member governments in tracking progress in reducing inequality.** APEC member states must develop national plans to reduce inequality, aiming for a Palma of 1, where the top 10% have the same income as the bottom 40%.<sup>16</sup> It should support an inequality data revolution, collecting accurate data on top incomes and wealth as well as other forms and dimensions of inequality.

Poverty and extreme inequality are not destiny. They can be challenged and eliminated. APEC leaders are in a unique position to put an end to these longstanding problems by creating and promoting economies where no one is left behind.

# NOTES

- 1 L. Gibson (2017) *Towards a More Equal Indonesia*, Oxfam International, <https://www.oxfam.org/en/research/towards-more-equal-indonesia>
- 2 Nguyen Tran Lam (2017) *Even it Up: How to Tackle Inequality in Vietnam*, Oxfam, <https://www.oxfam.org/en/research/even-it-how-tackle-inequality-vietnam>
- 3 Asian Development Bank and Routledge (2014) *Inequality in Asia and the Pacific: Trends, Drivers, and Policy Implications*, <https://www.adb.org/sites/default/files/publication/41630/inequality-asia-and-pacific.pdf>
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- 5 Ibid.
- 6 Asian Development Bank, Fast Facts, Social Protection and Labor, <https://www.adb.org/themes/social-development/social-protection>
- 7 Ibid.
- 8 International Labour Organization (2017) *World Employment Social Outlook: Trends 2017*, [http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms\\_541211.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_541211.pdf)
- 9 International Trade Union Confederation (2016) *Scandal – Inside the Global Supply Chains of 50 Top Companies: Frontlines Report 2016*
- 10 ITUC (2016) op. cit.
- 11 Ibid.
- 12 Ibid.
- 13 APEC Symposium on Promoting Economic, Financial and Social Inclusion, <https://www.apec2017.vn/ap17-c/press-release/apec-symposium-promoting-economic-financial-and-social-inclusion>
- 14 'The Room Where It Happens' is a song in the Broadway musical, *Hamilton*.
- 15 The Commitment to Reducing Inequality Index uses a new database of indicators covering 152 countries, which measure government action on social spending, tax and labour rights, which are found to be critical to reducing inequality. For more information, see <https://www.oxfam.org/en/research/commitment-reducing-inequality-index>
- 16 For more on the Palma Ratio and Palma Proposition, see Cobham, A., Schlögl, L. and Sumner, A. (2016). *Inequality and the Tails: the Palma Proposition and Ratio*. *Global Policy*. Volume 7, issue 1. Pages 25–36. <http://onlinelibrary.wiley.com/doi/10.1111/1758-5899.12320/abstract>. DOI: 10.1111/1758-5899.12320



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