



**POLICY OPTIONS AND CHALLENGES
FOR DEVELOPING ASIA—
PERSPECTIVES FROM THE IMF AND ASIA**

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JAPAN BANK FOR INTERNATIONAL COOPERATION

**COMMENTS: “RISING INEQUALITY
AND POLARIZATION IN ASIA” BY ERIK LUETH**

TATSUFUMI YAMAGATA

INSTITUTE OF DEVELOPING ECONOMIES, JAPAN EXTERNAL TRADE ORGANIZATION

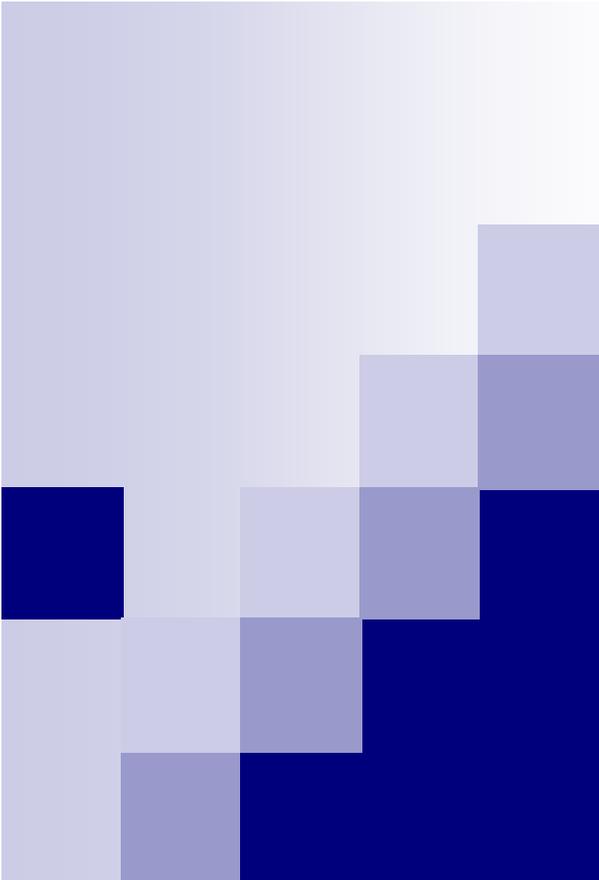
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Inequality and
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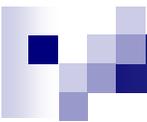
Tatsufumi YAMAGATA

Institute of Developing Economies



Interesting findings

- Intra-country **Inequality** is more pronounced amid rapid economic growth in low income countries in Asia than before.
- **Globalization** and **economic growth** are positively and non-linearly associated with intensified inequality in each country.
- **What are behind these statistical facts?**



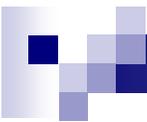
Connotations to the audience (not cited by the author)

1. **The poor are left behind** amid economic growth and globalization.
 2. **The poor** in low-income countries in Asia **do not benefit** from economic growth and globalization.
- In this discussant's view, there are at least **two counter examples**.



Counter Examples: Bangladesh and Cambodia

- A driving force of globalization and economic growth is the garment industry.
 - Bangladesh grew by 6.1-6.2%, Cambodia by 10.0-13.4% in 2004 and 2005, respectively.
 - Garments lead globalization (make up 75% of total exports from the two countries).
 - The industry offers entry-level workers with earnings beyond the national poverty lines.
 - The entry-level workers need not be educated.



What happened upon the industry in the two countries after 2005

- All WTO member countries abolished quantitative restrictions on imports of textiles and apparel on January 1, 2005.
- China and India rapidly expanded in 2005.
 - EU and US set quotas on Chinese garment imports up to 2008 again, and they have worked.
- Irrespective of the renewal of quotas to China, Bangladesh and Cambodia have expanded garment exports throughout 2005-2006.

Growth Rates of Exports of Knit and Woven Garments to the United State

				(%)			
	Origin	2005/04	2006/05		Origin	2005/04	2006/05
	World	5.89	3.65				
1	China	56.77	18.19	9	Cambodia	20.08	25.17
2	Mexico	-8.99	-12.55	10	Philippines	3.21	9.70
3	Indonesia	19.99	27.50	11	Thailand	0.60	1.39
4	India	34.31	6.00	12	Sri Lanka	6.46	2.03
5	Vietnam	6.37	18.49	13	Guatemala	-6.66	-8.28
6	Hong Kong	-9.13	-20.08	14	Dominican Republic	-10.09	-16.14
7	Bangladesh	21.17	23.85	15	Italy	-4.12	-2.98
8	Honduras	-2.09	-6.24	16	Pakistan	10.99	12.11

Note: Knit and woven garments are defined as commodities with HS codes of 61 and 62.

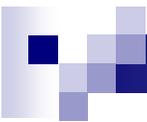
Source of data: U.S. Dept. of Commerce, Bureau of Census.

Growth Rates of Exports of Knit and Woven Garments to the EU15 (Jan-Oct) (%)

	Origin	Jan-Oct 2005/04	Jan-Oct 2006/05		Origin	Jan-Oct 2005/04	Jan-Oct 2006/05
	World	7.83	10.74				
1	China	54.41	6.84	12	Vietnam	3.02	52.61
2	Turkey	6.94	1.40	13	Sri Lanka	-2.83	22.74
3	Bangladesh	-5.85	33.27	14	Pakistan	-10.87	13.98
4	India	33.74	17.65	15	Thailand	-13.37	14.78
5	Romania	-4.61	-3.32	16	Hungary	5.11	-0.24
6	Hong Kong	-30.67	103.91	17	Czech Republic	-27.75	13.55
7	Tunisia	-2.39	-2.49	18	Cambodia	-10.32	19.77
8	Morocco	-5.32	2.58	20	Mauritius	-14.88	7.73
9	Indonesia	-14.10	23.94	32	Madagascar	15.43	28.21
10	Bulgaria	3.74	10.49	34	Myanmar	-49.45	10.75
11	Poland	-12.79	-2.97		China+Hong Kong	42.06	13.72

Note: Knit and woven garments are defined as commodities with HS codes of 61 and 62.

Source of data: Eurostat.



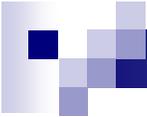
Wages for garment workers

- Wage rates for entry-level garment workers had been (more or less) fixed in nominal terms for years till 2005.
 - US\$ 20 per month in Bangladesh; US\$45 in Cambodia.
- In 2006, even workers noticed that the industry survived the liberalization, and asked loudly for wage increase.
 - The minimum wage rates were revised upward in both countries.
 - Globalization rewarded workers with time lags.



Conclusions

- Amid “rising inequality and polarization in Asia” there are examples where the poor benefited from growth and globalization.
- The achievement seems to be solely caused by low wage.
- A puzzle: How can we reconcile the observation of the “achievement” attained by Bangladesh and Cambodia with the statistical facts demonstrating “rising inequality and polarization in Asia”?



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