

## Asia's Challenges

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I am optimistic about Asia's prospects in this century. I believe that, economically, many countries in Asia will follow Japan's lead and catch up to the West. My ambition for Asia, however, extends beyond economics. My ambition is for Asian countries to achieve comprehensive modernization in this century. My dream is that, one day, Asia will be admired by the rest of the world not only for its prosperity and modern infrastructure, its competitive manufacturing and services industries, but also for its good governance, social equity, cohesive families, cultural achievements, care for the environment, and quality of life. With the exception of Japan, Asia is far from the ideal. In this essay, I wish to discuss three of Asia's challenges: corruption, social equity, and environmental neglect and mismanagement.

### Corruption

The most respected annual survey of corruption in the world is carried out by the Berlin-based nongovernmental organization, Transparency International. Transparency International publishes an annual index of countries ranked from the least to the most corrupt. The index is a composite index drawing on 16 surveys from 10 independent institutions that gather the opinions of business people and country analysts. The index defines corruption as the abuse of public office for private gain. The scores range from 10 for the squeaky clean to 0 for the highly corrupt. Transparency International uses the score of 5.0 as the borderline number to distinguish countries that do and those that do not have a serious corruption problem.

The 2005 Corruption Perceptions Index of Transparency International ranks 159 countries (Transparency International 2005).<sup>1</sup> The three least corrupt Asian economies are Singapore, with a score of 9.4 and ranking number 5 overall, Hong Kong (China), with a score of 8.3 and ranking 15th, and Japan, with a score of 7.3 and ranking 21st.

Other Asian economies that scored above 5.0 are Taiwan (China), ranking 32nd with a score of 5.9, Malaysia, ranking 39th with a score of 5.1, and the Republic of Korea, ranking 40th with a score of 5.0, which is on the borderline. All the other Asian countries have scores below 5. An Asian country is tied with Chad for the dubious honor of ranking as the most corrupt country in the index. Clearly, corruption is a serious and pervasive problem in Asia.

I hold a dogmatic view of corruption. I think corruption is an evil. Corruption distorts economic decisions. It leads to injustice. Corruption undermines the integrity of public institutions. Asian leaders and thinkers should be united in condemning and combating corruption. They should work with international organizations such as the World Bank and nongovernmental organizations such as Transparency International in increasing transparency, accountability, and integrity and in reducing the evils of corruption, collusion, and cronyism.

I am encouraged by the fact that the president of China, Hu Jintao, the president of Indonesia, Susilo Bambang Yudhoyono, the prime minister of Malaysia, Abdullah Badawi, and the new leadership of Vietnam have all made fighting corruption a major priority of their administrations. It is also encouraging that Asian media and nongovernmental organizations have become more vigilant and vocal in exposing corruption in their respective countries. Efforts should be made to enlist the Asian private sector as a stakeholder in the anticorruption campaign.

I am personally very pleased that the president of the World Bank, Paul Wolfowitz, has made fighting corruption an important priority on the Bank's agenda and that the Bank is implementing a new system to minimize the risk of corruption in World Bank-funded projects.

## Social equity

In 1993, the World Bank published a report, *The East Asian Miracle*, that caught the world's attention. The report stated that East Asia had grown more rapidly and for a more sustained period than any other region of the world. The report also concluded that the East Asian economic model seemed to combine growth with equity. East Asia was not only growing more rapidly; it was also more equitable than Africa, Latin America, and the Middle East. Only 13 years after that report, the situation in Asia has changed radically. Asia has become more prosperous, but more unequal. Let us take a look at the facts.

I will use Table 2.8, "Distribution of income or consumption," in *World Development Indicators 2006* (World Bank 2006).<sup>2</sup> The table shows the Gini index instead of the Gini coefficient, but the idea is similar. A Gini index of 0 represents perfect income equality, whereas a Gini index of 100 represents perfect income inequality. In real life, there are no countries with a Gini index of either 0 or 100.

The United States is usually regarded as a paradigm of a robust capitalist society with great prosperity, but also a big social divide. What is the Gini index of the United States? It is 40.8. I would like to use Japan as an example of an Asian country that is modern, prosperous, and socially equitable. Japan's index is 24.9. Japan's Gini index is very similar to the index in the Scandinavian countries: Denmark at 24.7, Finland at 26.9, Norway at 25.8, and Sweden at 25.0.

Are there any Asian countries that are as equitable as or more equitable than Japan? There are none. This is a surprising finding given that several Asian countries, such as China, Laos, and Vietnam, are ruled by communist parties and were, at least until recently, poor, but relatively equitable.

Are there any Asian countries that are more unequal than the United States? The intuitive answer should be no, but the correct answer is yes. The following Asian economies each has a Gini index higher than that of the United States (40.8): China at 44.7, Hong Kong at 43.4, Malaysia at 49.2, Papua New Guinea at 50.9, the Philippines at 46.1, Singapore at 42.5, and Thailand at 42.0.

The table also shows income disparities between income quintiles (20 percent shares of the population according to income) in each economy. Let us take a deeper look at the disparity between the top income quintiles (top 20 percent according to income) and the bottom income quintiles (bottom 20 percent) in the various Asian economies. In Japan, the top quintile accounts for 35.7 percent of gross domestic product. The comparable figure is 50 percent of gross domestic product for China, 50.7 percent for Hong Kong, 54.3 percent for Malaysia, 52.3 percent for the Philippines, 49.0 percent for Singapore, and 49.0 percent for Thailand. What about the bottom quintile? In Japan, the bottom quintile accounts for 10.6 percent of gross domestic product. The comparable figure is 4.7 percent of gross domestic product for China, 5.3 percent for Hong Kong, 4.4 percent for Malaysia, 5.4 percent for the Philippines, 5.0 percent for Singapore, and 6.3 percent for Thailand.

Asian thinkers and leaders will be surprised to learn that their economies have become more inequitable than the United States. What has brought about this change? What has

happened to the East Asian economic model of growth with equity? How might Asia reinvent its economic model so that it will continue to spur high growth and reward achievement, but, at the same time, ensure that prosperity is more equitably distributed?

There are probably many reasons for the trend of the last decade. Asia has become more prosperous, and this has benefited the top income quintile in a disproportionate way. Asian countries have, generally speaking, brought the tax burden down to approximately half the tax burden in Europe, Japan, and the United States. This has also benefited the top quintile. Asians prefer self-reliance and family support rather than a state-funded welfare system, such as those in Europe and the United States. The bottom quintile in Asia has therefore not benefited as much as the bottom quintile in Europe, Japan, or the United States because there is less transfer of wealth from the top to the bottom through the welfare system. Finally, globalization and the competition for talent have raised the wages of the top quintile, whereas the bottom quintile remains stuck in a developing economy. In places like Hong Kong and Singapore, senior executives are paid salaries comparable to the salaries of executives in London and New York, but with half the tax burden. As the same time, consolidation, restructuring, and outsourcing have increased job insecurity and suppressed the wages of the bottom two quintiles in the Asian economies. A globalized world has become, for many people, a more unjust world.

Ironically, the most emotional debate about the growing inequality has taken place in Asia's most equal country, Japan. Income inequality has been rising in Japan since the early 1980s. This is probably due to Japan's rapidly aging population. Nevertheless, Japan's left and right political wings have united in blaming the growing income gap on globalization and on Prime Minister Koizumi's structural reforms and deregulation. In China, a similar debate is taking place. Speaking recently at a discussion on income distribution, President Hu Jintao said that salaries should be market oriented, but that the nation must also focus on fairness. The Labor-Wage Institute, an interdisciplinary research group affiliated with the Chinese Ministry of Labor and Social Security, has suggested capping the salaries of employees in monopoly industries such as electricity, telecommunications, finance, insurance, tobacco, and so on. In Singapore, the issue was highlighted in the 2006 general elections and in a report published recently by the Department of Statistics showing that all households in Singapore, except those in the bottom income quintile, have benefited from the expanding prosperity. The Singapore government has recently introduced a number of measures to help the bottom quintile of the population. In this respect, Singapore serves as an interesting laboratory for the rest of Asia.

It is clear that the issue of growing social inequality should be on the Asian agenda. The challenge is to learn to tweak the economic model so that the social divide will be narrowed and prosperity will be distributed in a more equitable manner without dampening the incentive to work and the motivation to achieve, without raising taxes, and without establishing a welfare system that breeds an entitlement mentality. Can this be done? I do not know, but I hope we will try to reinvent the East Asian economic model of growth with equity.

## **The environment**

The countries of Asia, with the exception of only a few such as Japan, have done a very poor job in reconciling development and the environment and in managing and using the environment and natural resources. China and India, the two rising giants of Asia, are also two of the most polluted countries in the world. Most of Asia's towns and cities have been ruined by poor planning and mismanagement. Few Asian cities have made it to the list of the world's most

livable cities.

What do I consider Asia's worst environmental problems? They are air pollution; contaminated water; lack of modern sanitation; destruction of forests, mangroves, and other natural habitats and the attendant loss of biodiversity; and unlivable cities.

Air pollution is a major problem in Asia. The air quality in most of Asia's major cities is unhealthy. According to a World Bank–Asian Development Bank study of air pollution in 20 major Asian cities between 2000 and 2003, Delhi is the most polluted city in Asia. Chongqing, Jakarta, Kolkata, and Mumbai are not far behind. Air pollution affects the health of a city's residents. In Delhi, for example, one school child in every ten suffers from asthma. The number of premature deaths due to air pollution in Indian cities are estimated to have increased by 30 percent between 1992 and 1995.

Waste disposal is another major problem in urban areas in Asia. Most Asian cities are unable to cope with the waste they generate. In the Philippines, only 40 percent of solid waste is collected. The rest is dumped in open spaces and waterways. Cities in South Asia are literally drowning in their own waste. In China, only 20 percent of the 168 million tonnes of solid waste generated each year is properly disposed. One deleterious consequence of the dumping of waste in waterways, rivers, lakes, and open spaces is that the waste contaminates the sources of drinking water for millions of people.

Water is essential to life. Sadly, only a minority of Asians has access to potable water. The recent spillage of chemicals into the Songhua River in China resulted in the closure of the water system in the city of Harbin for four days. This caused headline news around the world. Countries in Asia should regard the incident as a wake-up call. According to China's State Environment Protection Agency, 70 percent of the water in five of China's seven major river systems was found to be unsuitable for human contact, let alone for consumption. The situation in the other countries in Asia is as bad. We should make it our collective priority in Asia to afford to all our citizens, rich and poor alike, access to safe drinking water as a basic human right.

Asia has, in general, done a very poor job in looking after our forests, mangroves, and other natural habitats. One consequence has been the loss of biodiversity. There are other negative consequences. When parts of Asia were struck by the tsunami on December 24, 2004, we discovered that beaches with mangroves were more well protected from the ferocity of the tsunami than other areas from which mangroves had been cleared for development. Disastrous floods in China and mudslides in Indonesia were probably caused, at least in part, by deforestation. China is, however, making a serious effort to plant trees. In 2005, nearly 560 million people participated in a campaign to plant 2.5 billion trees.

I would like to believe that Asians have awakened to the serious environmental crisis in which we live, but I am not sure. In spite of our economic progress, most Asians still do not have access to safe drinking water, modern sanitation, and clean air. We have polluted our air, contaminated our rivers and seas, and poisoned the land that gives us sustenance. We have not cared for our environment, and we have used our natural resources in an unsustainable manner. We live in towns and cities that have lost their beauty, heritage, and livability. China and India are two of the world's largest emitters of carbon. As Asia becomes a major stakeholder in the world economy, it must also accept its correlative duty to behave as a good global citizen. The future of the human civilization is in peril if we do not succeed in reconciling the human enterprise and the natural world. That future will depend to an increasing extent on Asia's behavior.

## Conclusion

I am reasonably confident that, by the middle of this century, Asia will have caught up with the West economically. My dream is that Asia will be admired by the world not only for our prosperity and modernity, but also for our soft power. Three of the obstacles that we have to overcome in order to achieve my dream are corruption, growing social inequity, and environmental neglect. We have to solve these and other shortcomings if we want the West to treat us as equals and if we want the rest of the non-Western world to look to Asia for inspiration.

## Notes

<sup>1</sup> To access the table, go to <http://ww1.transparency.org/cpi/2005/cpi2005.sources.en.html#dpi>.

<sup>2</sup> To access the table, go to <http://devdata.worldbank.org/wdi2006/contents/Tables2.htm>. There, at “2.8,” click on “Distribution of income or consumption.”

## References

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