Asia is home to some of the world’s fastest growing economies. Yet millions of people remain poor, while a handful get richer and richer. Asia needs a development paradigm that leaves no one behind—not the workers and farmers, who act as the driving force behind Asia’s growth—and certainly not the women, who take on the lowest-paying jobs in the region. This paradigm must also consider constraints, particularly the earth’s finite natural resources, which future generations need to survive. It must move away from carbon dependence and must anticipate and plan for the impacts of climate change. These principles together inform inclusive and sustainable development, which Asian governments can use as a roadmap to transform their respective societies in an era of vanishing resources and staggering inequalities.
SUMMARY

Economic growth is creating jobs and generating wealth across Asia. However, poverty amidst plenty continues to persist. Even with the increasing development and bountiful resources, millions are being left behind. Workers and farmers remain mired in poverty despite—and perhaps because of—their role as the engine behind the very growth that is marginalizing them. Amidst the prosperity created in economies across the region, inequality continues to rise. Meanwhile, pollution, the clearing of forests, and the over-use of natural resources is endangering the environment that the economy depends upon.

There is hope. Inclusive and sustainable development (ISD) is possible, if driven by an economy and society that prioritizes opportunities for those left behind; one that addresses gender discrimination and social exclusion, and aims for a fairer economy, not just a larger one. This requires bold but necessary steps to be taken by governments, to enable poor people to participate in and benefit from development, and to shape the market economy, so that it behaves in an inclusive and sustainable manner.

This paper makes the case for inclusive and sustainable development and suggests key steps for governments in the region to promote it. It builds on existing policies and initiatives and identifies concrete recommendations that can help Asian countries address poverty and inequality.

At the heart of the matter is whether key issues of human rights, gender equality and the sustainable use of natural resources are championed by governments. With increasing awareness of the state responsibility to protect human rights, several states and institutions are exploring action plans on business and human rights, which provide a ray of hope that the worst kinds of abuses of human rights by business can be averted. Meanwhile gender inequality remains a key barrier for economic and social development across the region, as women are over-represented in precarious and low-wage jobs and under-represented in economic and political decision making. Rectifying such mistakes will both bring greater prosperity and create fairer societies.

Powerlessness drives poverty. When men and women workers, farmers, community members and citizens have little power over the commercial and political decisions that shape their lives, ISD cannot happen. It is for this reason that empowering people living in poverty, both in the political and economic spheres, should be an explicit focus of policy makers.

Small business, particularly in agriculture, can be a key driver for building inclusive economies. Small business generates jobs. Support for small businesses, particularly by eradicating the “missing middle”—small enterprises—particularly in agriculture that miss out on access to finance,
will allow a more diverse and inclusive economy to form. As today’s small businesses are tomorrow’s large businesses, supporting small enterprise models that prioritize inclusion and are set up to spread benefits most widely and fairly is key to shaping the future of the economy. Supporting enterprise models, such as social enterprises, cooperatives, and employee-owned businesses, will create a more inclusive and fairer economy. Agriculture remains a major employer in the region, providing between 30 and 60 percent of jobs and driving food security. Efforts to support small-scale farmers, particularly by encouraging and strengthening farmer-owned enterprises, are key enablers of ISD.

Health and education are the bedrocks of healthy, productive and prosperous societies. For ISD to happen, governments must invest heavily in these essential services, by implementing policies and programs that support people living in poverty. To facilitate this process, fair taxation is key to ensuring that corporations and the rich are paying a greater share, which governments can then use to support health and education services for everyone, especially the poor. Focusing on the direct taxation of wealth, profits, and high incomes should be preferred to consumption taxes.

Meanwhile, all efforts to promote inclusive growth are undermined if we use up the earth’s resources and fail to curb climate change, making it impossible for future generations to live happy and healthy lives. We all depend on the natural resources, be it water, air, forests, soil, or energy, and we must balance the use of these to sustain present economic and other human activities to create jobs, food, fuel, and the like, with the imperative to respect the limits of the earth’s resources. Addressing climate change by reducing greenhouse gas emissions, following a low-carbon development path, and helping communities, especially the most vulnerable, to adapt to its effects are essential to inclusive sustainable development.

Inclusive and sustainable development entails living in the space between a social floor of the essential requirements for people to live a dignified life, and a planetary boundary of the earth’s sustainable natural resources. As Asia comes to represent the lion’s share of global economic activity, its ability to live within these boundaries will determine the sustainability of our planet.

To summarize, the challenge for governments is to promote ISD through:

- **Empowering women**

  Reforms that target women’s empowerment can transform society and the economy. Governments can push for equal job opportunities and implement equal living wages between men and women; recognize and strengthen women’s right to own land; and encourage women’s participation and leadership in local and national organizations and government, among others.
• **Empowering communities and workers in markets and politics**

Empowered people are in a better position to contribute to and benefit from economic growth. Their participation in decision making can help ensure that government policies are truly responsive to the needs of the poor, and are effective in addressing the main drivers of poverty. Their voice in corporate structures and processes can help promote sustainable business operations and supply chains.

• **Protecting and promoting human rights**

Human rights are at the heart of the dignity of people. They comprise the foundation of equality because they operate on the principle that all people are equal and should enjoy the same basic rights, regardless of gender, age, religion, race, and socio-economic status. In the economic realm, the UN Guiding Principles on Business and Human Rights is important to ensure that states protect and businesses respect human rights, and that remedies are made available to individuals and communities whose rights have been violated.

• **Promoting inclusive and sustainable agriculture**

Experience has shown that economic growth models that focus solely on increased production are not enough to lift rural communities out of poverty. Inclusive and sustainable agricultural models that put small-scale producers, both men and women, at the center are the key to achieving inclusive and sustainable development.

• **Supporting small business, but shaping them, too**

Supporting micro- and small and medium enterprises (MSMEs) can help make economic growth and development more inclusive, as it opens up opportunities for people to participate in the economy. While regulating to shape the behaviour of existing large companies is also key (ensuring they respect human rights and do not misuse their market power), MSMEs offer a unique opportunity to shape the future of the business world.

• **Investing heavily in education and health**

Investing in and increasing people’s access to essential education and health services are crucial measures in promoting a healthy and informed population that is able to participate in and contribute to economic growth, and live with dignity.
• **Respecting planetary and social boundaries**

All policies should ensure that the country is not using more natural resources than what is sustainable or damaging the natural environment, such that future generations are deprived of the same opportunities to live inclusively and sustainably.

• **Promoting fiscal justice**

Fiscal justice is one of the best strategies to address inequality. It can help redistribute wealth by taxing the rich and using tax revenues to support programs that will empower the poor. It can also be used to influence the way companies operate and behave.

Overall, Asia is up to the challenge of generating inclusive and sustainable development. However, it requires clarity of vision and determination from policy makers on these eight points. It is possible, and the region's people depend upon it.
1 INTRODUCTION: INEQUALITY IN ASIA

Ka Eva, a woman farmer leader from a small town in Rizal in the Philippines stares helplessly at the huge pile of mangoes slowly rotting under the blazing sun. The cost of transporting her mangoes to the market is higher than what she expects to gain from selling them. Ten years ago, she and other farmers in their barangay planted mango trees with high hopes. They were encouraged by the promise of bigger markets for one of the country’s top agricultural exports, as the country signed free trade agreements with its neighbors in the Association of Southeast Asian Nations (ASEAN) and other countries. However, bad roads, high transport costs, and the lack of storage and processing facilities and technology prevent her and other farmers from benefitting from their harvest. In 2010, world imports of mango were valued at $1.5bn.¹ However, this provides little comfort to Ka Eva, who cannot find a way to connect to the local market, let alone to international buyers.

In another part of Asia, El Yin, a female worker in Myanmar, sighs as she anticipates the long day ahead. Like most workers in the factory, she has to work 3 to 10 hours overtime every week. El Yin earns a base salary of $1.50 a day, or a total of $40 a month. With overtime pay and benefits, she is able to bring home an average of $3.70 a day, or about $98 per month. Half of her base pay is spent on accommodation, while the rest of her salary is used to support her family. El Yin is not paid all her overtime wages. She usually receives overtime pay for only two or three hours. She is worried about the impact of the long hours on her health. She is afraid to voice her concerns, because the company might dismiss her. El Yin is one of 300,000 women in Myanmar’s rapidly growing garments industry.²

Ka Eva and El Yin are only two of the multitudes of people left behind by Asia’s much vaunted economic growth. Their stories reflect the sad phenomenon of poverty amidst plenty, of people left on the sidelines of Asia’s march to progress. Their stories cast a dark shadow on the region’s impressive economic performance.

Between 1990 and 2010, Asia’s economic output increased at a remarkable annual average of 7 percent per year, while the rest of the world’s economy slowed down.³ In 2013, the developing region’s economic output expanded by 7 percent.⁴ However, this impressive economic performance is taking place alongside high levels of poverty and rising inequality. Inequality in the region between the mid-1990s to the late 2000s has risen by as much as 18 percent, much higher compared with the 10 percent increase in the Gini coefficient of OECD countries. Although the last two decades saw 650 million people in the region lifted out of poverty, 1.6 billion people continue to live on less than $2 a day.⁵
Rising inequality means the gap between the rich and the poor is growing wider and deeper. It means the benefits of economic growth are concentrated towards those with wealth and enjoying higher incomes. It indicates a fundamental unfairness in our economies and reveals that the region’s growth is not pulling people out of poverty at the same rate as the richest individuals accumulate wealth.

The challenge of inclusion and sustainability

Most people agree that rising inequality is a problem. There is a huge body of research and evidence showing why economic growth is not enough to address inequality and poverty.\(^6\) Institutions that typically put a premium on economic growth, such as the Asian Development Bank (ADB), the World Bank, and the International Monetary Fund (IMF), have acknowledged the importance of making growth inclusive. The United Nations Development Program (UNDP) describes inclusive growth as one where poor people are able to participate in and benefit from economic progress.\(^7\)

However, in Asia, addressing inequality and multi-generational poverty is not only about promoting economic inclusion. The growing divide between the rich and the poor presents only one dimension of inequality in the region. Horizontal inequalities—that is, inequalities between different groups of people based on gender, race, ethnicity, geographical location or age—sustain and are sustained by the economic inequality characterizing the region. Marginalized groups face entrenched barriers to escaping poverty. Discrimination, limited economic opportunities, and exclusion from political processes work together to trap poor people at the bottom of the economic ladder for generations. Asia’s growth is unlikely to benefit the poorest while such systematic exclusion persists.

Additionally, it is impossible to provide long-lasting solutions to inequality and poverty without maintaining the principle of sustainability. Economic models that focus solely on growth without regard for the need to protect the environment and natural resources are akin to killing the proverbial goose that laid golden eggs. In Asia, we see grim reminders of the folly of pursuing economic growth above all else: from murky and heavily polluted rivers water to the thick and toxic air in rapidly developing cities and towns.

The devastating impact of climate change in the region, especially on poor and vulnerable communities, underscores the need for Asia to help find national, regional, as well as global solutions to this problem. At the national level, this involves the pursuit by Asian governments of a development path that reduces greenhouse gas emissions and integrates climate adaptation and disaster risk reduction in national planning processes.

Sustainability means current resources are nurtured and not undermined, so that they can continue to provide food, water, healthcare, energy, and livelihoods for present and future generations.
Inclusive and sustainable development—living within the doughnut

Inclusive and sustainable development (ISD) is one where everyone is able to meet essential needs and enjoy basic rights and freedoms, while respecting the limits of earth’s resources. Living ‘within the doughnut’ (see Figure 1), is described by Kate Raworth (2012) in an Oxfam Discussion Paper. The outer circle represents planetary boundaries (beyond which we run the risk of undermining the earth’s natural resources, systems and processes), while the inner circle represents the social boundaries—the essential requirements for people to live a dignified life. The space between these two circles, or what is referred to as the area within the doughnut, is where inclusive and sustainable development happens.

Figure 1: Living within the Doughnut, K. Raworth (2012)
For Ka Eva and the farmers in Rizal, inclusive and sustainable development means being given the necessary government support not only to improve production, but also to build farmers’ enterprises that will enable them to add value to their products, connect to markets, and increase their incomes. It entails using farming technologies that promote the sustainable use of land and water, and do not pose hazards to people’s health and to the environment. It involves being consulted and having the opportunity to participate and take leadership in the development of policies and programs that will affect their future. Essentially, it means that small-scale farmers have greater power in markets and politics, so they can control their destiny and get their fair share of profits.

For El-Yin, inclusive and sustainable development is securing fair wages and having greater security in employment. It means working in a safe environment, where women’s contributions are acknowledged, respected, and fairly valued equally with those of men. It necessitates being part of a supply chain that produces safe food in a way that supports communities, cares for the environment, and does not exacerbate climate change.
2 DRIVERS OF INCLUSIVE AND SUSTAINABLE DEVELOPMENT

Oxfam believes that inequality in Asia can be addressed by promoting people’s empowerment, ensuring equitable access to land and other productive resources, providing fair access to essential services like health and education, and applying fair taxation and implementing fair living wages. These measures also serve as the basis of inclusive sustainable development.

Development is a complicated struggle, and the experience of nations varies as they progress along the path to development. However, some key principles have emerged that pave the way for inclusive and sustainable development. If governments want to pursue ISD, they must focus on these principles.

**a. Rights**

Human rights are at the heart of people’s dignity. They constitute the foundation of equality because they operate on the principle that all people should enjoy the same basic rights, regardless of gender, age, religion, race, and socio-economic status.

Respecting, upholding, and protecting basic human rights and the rights of communities, especially those that are marginalized and displaced—be it as a result of large-scale business operations, development projects, or conflict—are a prerequisite for tackling poverty and attaining ISD. These rights include land and water rights—which, for small-scale producers (who represent some of the poorest people in the region), are intricately linked to the right to food, labor rights, and the right of workers to be free from discrimination. States have a duty to protect human rights and to regulate the private sector, which itself must respect human rights in its activities. The UN Guiding principles on Business and Human Rights puts forward the ‘protect-respect-remedy’ framework, stating clearly that business and government alike have clear obligations on the human rights agenda.

**b. Gender equality**

Women across Asia continue to face discrimination in the workplace, market, community, politics, and even at home. In the Philippines and Indonesia, the gender wage gap in 2008, in terms of hourly earnings, stands at 17 percent and 14 percent, respectively. Although women make up half of the agricultural labor force in Asia, only 62 percent of
them are paid for their work in this sector. In comparison with their male counterparts, women have unequal access to basic services (including education and health) and productive assets (including land, credit, agricultural extension, training, and inputs). Only 12 percent of 3 million landowners in the region are women, while the remaining 88 percent are men.

Women remain under-represented in producers’ organizations, as well as in the broader economy and society. For instance, the share of seats of held by women in parliaments, though increasing, is still limited. In South Asia, women hold 18 percent of total seats in parliament. This figure is slightly higher in Southeast Asia, where women hold 20 percent of parliamentary seats. Addressing discrimination means responding to the economic, social, and cultural factors that work together to perpetuate gender inequality. It entails giving women access to opportunities and productive resources. It means enjoining governments, civil society groups, and other institutions to take an active role in shaping cultural norms and values, so that these do not discriminate against women, and respect, uphold and protect women’s rights instead.

Debora is a Member of the Palmyrah society and she lives in Naruvlakulam village, in Sri Lanka, with her husband and son. ‘I find the weaving helps me forget my difficulties, sorrows and grievances. There are always several women here and we get together and chat about things that are worrying us. That’s a big added benefit to this work.’ In 2013, Oxfam worked closely with communities in the north and eastern provinces who were worst affected by the conflict. The plan was to help re-build the communities capacity, re-establishing agricultural production and empowering women, enabling them to improve their status and earning potential. Credit: Bes Young
At the same time, addressing gender discrimination requires addressing gender-biased policies that affect women’s roles and status across different social and cultural backgrounds. For example, family law affects the distribution of power and resources within the household, and often discriminates against women by recognizing only men as heads of households. This affects women’s ability to access credit or participate in contract farming. Inheritance law often restricts women’s ability to inherit land. Measures to address the entrenched discrimination faced by women are critical to ISD. Development cannot be inclusive if half of humanity is systematically discriminated against.

c. Poor people holding power in markets and politics

ISD recognises that powerlessness is at the heart of poverty. This means economic development is inclusive only when people in poverty obtain power to control their destiny. Marginalized workers and communities are often excluded from policy making that affects their welfare, and are unable to hold decision makers accountable. They are vulnerable to exploitative practices in the market through abusive employers and reckless investors. Workers on temporary contracts, migrant laborers with little voice or power, and communities facing land rights violations are scenarios that are all too common across Asian countries.

Public policy and market interventions that are made without considering these dynamics can amplify poverty and other interconnected forms of inequality, leading to social structures and practices that favor men over women, employers over workers, and corporate investors over communities. Reversing this powerlessness means strengthening the voice and participation of workers and communities, particular women, in policy making and inclusive markets, while stopping abuses of power by the powerful. It also means ensuring that people have equal access to educational opportunities and health services that will give them greater power and leverage in the economy, as well as in politics. It means supporting and encouraging women, farmers, workers, peoples and communities to unite, organize themselves, and work together in order to build their power to shape policies and programs that affect them.
d. Promoting inclusive agricultural markets and addressing the ‘missing middle’

In Bangladesh, a farmer on the hour-long walk from his village on Gabgachi char (river island) to the boat which will take him to the nearest mainland market at Fulchari. In 2013, Oxfam supported chilli farmers here, so they could earn a better living, feed their families, and save money to prepare for floods which hit their community every year. By pooling their resources they could save on transport and labour costs, and marketing fees. Credit: Rachel Corner/Oxfam

Agriculture is the biggest employer across Asia and continues to provide a source of livelihood and food security to millions across the region. As of 2010, agriculture provided employment to more than 60 percent of the labor force in Cambodia, close to 50 percent of the labor force in Vietnam, 41 percent of the labor force in Thailand, 38 percent of the labor force in Indonesia, and 34 percent of the labor force in the Philippines. Making agricultural markets work for society is critical. For small-scale producers, powerlessness often means they bear the greatest risks in market relationships, despite being the least equipped with the means to shoulder them.

Small-scale farmers who are thriving are key to ensuring that agricultural markets are inclusive, and that whole communities are lifted out of poverty. This requires helping traditional markets to evolve and compete, helping small-scale producers to access and benefit from formal markets, and ensuring that they get a fair share of value from agricultural markets. Enterprises owned and governed by small-scale producers can be an instrument to attain this by providing services to owners and members, linking them to markets, and ensuring that they and their communities enjoy the benefits of agricultural trade.
Promoting inclusive and sustainable agricultural development entails ensuring that farmers and their enterprises have access to productive resources, such as land, water, financial services, and other inputs that will give them greater power in markets. Many producers’ associations and other forms of small enterprises in agriculture, which are critical for connecting farmers to markets, are not able to access formal financial services. This problem is particularly acute in the sector where the ‘missing middle’ has developed. The unmet needs for finance of producer associations and other forms of MSMEs in agriculture, for transactions between £5,000 and £500,000, constitute this ‘missing middle’ in finance. This, combined with the financing gap that is also present in the rural economy more broadly, exacerbates the challenges relating to access to finance among rural MSMEs.

### e. Fairer and better companies through shaping MSMEs

Micro-, small, and medium enterprises (MSMEs) comprise a category that is critical to economic development. They are the engine for entrepreneurship and the backbone of economies. MSMEs themselves can be diverse, differing in structure, values, and impacts on people and the planet. Through carefully selected policies, governments can help shape an MSME sector that contributes positively to society and respects the environment. This can be the key to ISD. While many MSMEs remain small, tomorrow’s corporate giants are today’s MSMEs. A new breed of enterprises, known as social enterprises, are emerging throughout Asia, and are known for their ability to tackle social issues while generating livelihoods and creating wealth in communities that are too often left behind. Globally and in the region, there are several initiatives that are looking to support such enterprises, including the Poverty Reduction Through Social Entrepreneurship Act in the Philippines. The structures and cultures of business emerging through the MSME sector will shape the future of our global economy. The corporate models that are prominent today have themselves evolved out of government policies and regulations. A new generation of corporate models, which would ideally be more supportive of ISD, can be promoted through targeted MSME policies.
There are many ways to address inequality and promote inclusive and sustainable development in Asia. Oxfam’s work in Nepal shows how helping women farmers gain access to productive resources, strengthen enterprises, and establish links with buyers can help improve their quality of life, and give them greater power in their homes and in the market.

Kalpana is one of the 1,200 women members of the Pabitra cooperative in Surkheat, Nepal. Members of this enterprise produce and sell seeds to the market. Pabitra partnered with Oxfam to improve seed production and marketing. Farmers were given training on seed production and leadership development. As part of the program with Oxfam, they linked up with the Kumari Bank, which designed a credit program that complemented their production and marketing schedule, as well as cash flow.

Cooperative members also entered into a mentorship agreement with the Federation of Nepalese Chambers of Commerce and Industry. Members were given training on business planning, financial management, market pricing, and policy-related issues. Equally important was the ability of the cooperative to establish links with buyers, who committed to purchase their products at a guaranteed price. Because of these interventions, the enterprise was able to increase its production from a few hundred kilos to 36 tons per season. Pabitra members like Kalpana were able to expand their vegetable seed output from 2 to 5 kilograms to 100 kilograms.

Kalpana reflects on the changes in her life: ‘From this business, I am able to run my household and pay for my children’s food, education, and other expenses. In the same way that an educated person gains confidence to get jobs and help build their country, I have confidence that I will be able to do the same in agriculture. This is my dream.’
f. Access to essential services

People who are healthy are generally more productive and in a better position to generate income. In the same way, people who have access to demand-responsive education and skills training have greater leverage in labor markets. Investments in essential services, particularly education and health, offer huge potential to promote inclusion because they help to increase poor people’s capacity to participate in, contribute to, and benefit from economic progress. Unfortunately, Asia still has a long way to go to improve health and education services. In 2006, Southeast Asia charted the lowest spending on health services as a percentage of GDP at 3 percent—less than half of the global average of 9 percent.\textsuperscript{33} Government spending on education is also fairly limited. In Cambodia, Laos PDR, Myanmar, the Philippines, Bangladesh, Pakistan, and Sri Lanka, public expenditure as a percentage of GDP was less than 3 percent during the period 2000 to 2012,\textsuperscript{34} compared with the OECD average of 5 percent of the GDP in 2011.\textsuperscript{35} The average duration of schooling in South and Southeast Asia is approximately 6 years, compared with the world and OECD average of 9 years and 11 years, respectively.\textsuperscript{36} In Asia, differences in human capital and skill endowment—factors largely influenced by people’s access to education—account for 20 percent to 40 percent of total inequality.\textsuperscript{37} Addressing inequality and promoting inclusive and sustainable development requires sufficient public investment and effective delivery of education and health programs, especially for people living in poverty. It is essential that these services are not left only to the private sector, and are made accessible to the poor.

g. Environmental sustainability

Forest cleared by a palm oil company in Indonesia. Biofuels are seen as a way to combat climate change and provide an alternative source of fuel in the face of decreasing global oil reserves. However, oil palm plantations used for production of biodiesel are a major driver of deforestation in tropical Asia. Deforestation increases Indonesia’s vulnerability to the impact of sea level rises, prolonged drought and heavy rainfall leading to floods and tidal surges. Credit: Tom Greenwood/ Oxfam GB
The blind pursuit of economic growth—manifested in the indiscriminate establishment of huge factories that pump waste into the air and water, the intensive use of chemicals to increase agricultural output, or the reckless clearing of forests to supply the needs of rapidly expanding cities—is undermining the long-term sustainability of the environment, the very resource base that supports people's basic needs for food, air, water, energy and healthcare, and upon which future growth and development depend. Asia's forest cover is shrinking by 1 percent per year, and 70 percent to 90 percent of its original wildlife habitats have been lost.\(^{38}\) Environmental degradation is undermining growth prospects in many countries in the region, with the cost of environmental degradation estimated at 4 percent to 8 percent of the GDP of developing countries.\(^{39}\)

A more worrisome trend lies in the way environmental pollution is endangering the health and safety of people across Asia. Over the last two decades, the region has earned the name 'Factory Asia', for supplying the world with huge volumes of cheap manufactured goods. This has taken a huge toll on the quality of life of people in the region. Promoting inclusive and sustainable development involves developing and implementing policies and programs that protect and take care of the environment and the region's natural resources. Climate change is one the biggest development challenges facing Asia today. Its impacts are undermining food security, poverty reduction and sustainable development. It is forecast to put around 49 million more people in the Asia Pacific region at risk of hunger by 2020.\(^{40}\) The recent IPCC report notes that climate change is impacting on "human health, security, livelihoods and poverty" in countries in Asia.\(^{41}\) In order to address this urgent global challenge, governments in the region must contribute to international efforts to reduce greenhouse gas emissions, while taking initiatives to build people's climate resilience.

**h. Fiscal justice**

Fiscal policies are crucial in promoting inclusive and sustainable development. The way governments use taxes and spend revenues can help address poverty. Regressive taxes, such as those applied on services and goods normally consumed by the poor, will increase disparities and exacerbate inequality; while progressive taxes, which directly target wealthy individuals and large corporations, can help governments raise the necessary revenue to finance essential public services, infrastructure, and social protection programs. Indirect taxes, or taxes applied on goods and services, tend to be regressive and put a disproportionate tax burden on poor and middle-income groups. Heavy reliance on sales (VAT in Asia) and excise taxes are characteristics of the most regressive state tax systems.\(^{42}\) In Asia, according to ADB,\(^{43}\) indirect taxes dominate direct taxes by 10 percent. The corporate tax rate in the ASEAN region has been lowered in last 15 years.\(^{44}\) The trade-off of the lowered corporate tax rate is government's reliance on indirect taxation, which again leads to disproportionate tax burdens for poor and middle-income groups.
How governments spend their revenue can determine whether people escape poverty. Public expenditure that does not prioritize pro-poor programmes will undermine poverty reduction. Evidence from around the world indicates that government spending has significant impacts on income distribution, depending on the composition of expenditure, peoples’ participation, the nature of government programmes, and the effectiveness of delivery.

Government policies that rely heavily on consumption taxes enable tax avoidance by rich individuals and corporations, foster low public expenditures on essential services, and neglect social protection and critical infrastructure. Such trends will not lead to ISD and fairer societies in Asia.

Fiscal justice is not only about income redistribution. It is also about using taxes to influence the way people and companies behave, so that they are able to contribute to the common good. For instance, applying progressive environmental tax, as well as taxes on greenhouse gas emissions and carbon pricing schemes, can help to promote the judicious use of land and water resources and help to address climate change, while generating resources to support programs for the poor.

**Box 2: Tax holidays**

Despite various studies indicating that tax holidays do not result to a substantial increase in foreign direct investment, countries in Asia continue to engage in an all-out battle to offer the best tax incentives to corporations. Taxes in 6 member countries of the Association of Southeast Asian Nations have gone down over the period 2006 to 2015, in keeping with ASEAN’s goal of attracting more investors into the region. Asia, with its 44 countries, already has the lowest average top marginal corporate tax in the world at 21 percent; lower than the world average of 23 percent.

Lower tax revenues mean less funds to meet the development needs of Asia’s population, especially the 700 million who presently live on less than $2 a day. It means less money for government to spend on health and education and to help build communities’ climate resilience. It means not having enough funds to provide farmers, producers and small and medium enterprises with essential support services to improve production and increase incomes. According to Prakarsa Indonesia, if the estimated revenue loss of 0.5 percent in developing countries was used in Indonesia, it would translate to foregone revenues equivalent to more than IDR 50 trillion ($350m), enough to provide one million subsidized houses for the poor.

However, corporate tax cuts are only one way through which big companies are able to evade tax responsibilities. In Bangladesh, weak transfer pricing monitoring mechanisms allowed multinational companies to pay taxes equivalent to $310m a year. This money could have been enough to provide one-fifth of the budget for primary education in the country.
3 RECOMMENDATIONS

Inclusive and sustainable development in Asia is both necessary and possible. The challenge for governments is to promote it through the following:

1. Empower women

Governments can play a key role in empowering women and girls. From the political to the economic system, from the healthcare to the education sector, and across society, reforms that target women's empowerment can transform society and the economy. These reforms begin with recognizing women's roles in economic development, be it as farmers, fishers, workers, or entrepreneurs.

Five key policies, if implemented can go a long way in promoting gender equality across the region:

- Create equal job opportunities and implement equal living wages between men and women;
- Recognize and strengthen women’s right to own land;
- Develop credit programs that are designed specifically for women and target them as beneficiaries;
- Allocate a budget in the spending programs of local and national governments, that specifically targets women’s empowerment; and
- Encourage women's participation and leadership in local and national organizations and government.

2. Empower communities and workers in markets and politics

Empowered people are in a better position to contribute to and benefit from economic growth. Their participation in decision making can help to ensure that government policies are truly responsive to the needs of the poor, and are effective in addressing the main drivers and enablers of poverty. Their voice in corporate structures and processes can help promote sustainable business operations and supply chains. Empowering poor people is an important part of inclusive and sustainable development. The implementation of the following measures can help increase poor peoples’ power in markets and politics:

- Create mechanisms through which people’s organizations and civil society groups can participate in government decision-making processes;
- Strengthen policies that uphold workers’ freedom of association and increase their bargaining power within companies and industries;
- Set and enforce a fair living wage as the minimum wage in order to enable workers to live with dignity; and
• Adopt and implement policies that uphold communities’ right to decide over projects and investments that will affect them.

3. Protect and promote human rights

Human rights are at the heart of dignity. These are the foundation of equality, because they operate based on the principle that all people are equal and should enjoy the same basic rights, regardless of gender, age, religion, race, and socio-economic status. In the economic realm, the UN Guiding Principles on Business and Human Rights is important to ensure that states protect and businesses respect human rights, and that remedies are made available to individuals and communities whose rights have been violated. The application of these principles is especially important in Asia, where the rapid influx of private sector investments is changing rural and urban landscapes, and affecting entire communities. Governments can help safeguard the human rights of their constituents through these interventions:

• Develop and implement national and regional action plans to operationalize the UN Guiding Principles on Business and Human Rights, in close consultation with peoples’ organizations, civil society, businesses, and other stakeholders; and
• Strengthen regional coordination in providing redress to communities negatively affected by the operations of private sector investments, especially those involving cross-country investments.

4. Inclusive and sustainable agricultural markets

Millions of poor people in Asia depend on agriculture for their food and livelihood. Interventions in the sector offer the most potential in addressing poverty, food insecurity, and inequality. Increasingly, the farmers producing our food are capturing less and less of the revenues in the sector, but increasingly carrying and absorbing the risks. Without addressing fairness and power issues in agriculture, ISD will not be possible. Experience has shown that economic growth models that focus solely on increased production are not enough to lift rural communities out of poverty. Inclusive and sustainable agricultural models that put small-scale producers, both men and women, at the center is the key to achieving ISD. Governments, working closely with peoples’ organizations, civil society groups, the private sector, and other relevant institutions, can take the lead in adopting and implementing the following policies to promote inclusive and sustainable agriculture:

• Provide policy and program support for the development farmers’ enterprises, cooperatives, and other similar institutions, allowing farmers to add value and capture greater revenues from supply chains;
• Adopt and implement policies that require companies to build sustainable value chains such as by mandating companies to pay
for insurance as a way of mitigating risks due to climate change, adopt fair living wages, provide clear and transparent employment contracts for farm workers, adhere to strict environmental standards, and provide support and pay prices that allow for sustainable agricultural production (including living incomes for farmers and labourers), among others; and

• Strengthen land rights, especially those of women farmers, and improve small-scale producers’ access to other productive resources and services, such as credit, technology, links to markets, and the like.

5. Support MSMEs, but shape them too

Supporting micro- and small and medium enterprises (MSMEs) can help make economic growth and development more inclusive, as it opens up opportunities for people to participate in the economy. While regulating to shape the behaviour of existing large companies is also key (ensuring they respect human rights and do not misuse their market power), MSMEs offer a unique opportunity to shape the future of the business world. However, supporting MSMEs is not enough, and policy makers must actively support the forms of MSMEs that will be most conducive to ISD. These could include cooperatives, employee ownership, social enterprises, Benefit Corporations, and other corporate forms that promote better social and environmental outcomes.

Below are some of the interventions that governments can adopt and implement to support enterprises:

• Increase the access of MSMEs to finance by encouraging and undertaking initiatives to provide them with seed and venture capital, fair and inclusive lending terms and effective credit guarantee schemes;
• Help MSMEs access technology for value addition and facilitate their links to markets, especially during the early stages of their operations;
• Work with MSMEs in developing competition policies aimed at ensuring that markets are not dominated by big players; and
• Protect (through regulation) and promote (through access to government services) MSMEs that prioritize social outcomes alongside commercial ones, including social enterprises

6. Invest heavily in education and health and ensure that these are accessible to all, especially poor people

Studies indicate that government expenditures on health and education not only help productivity and economic development, but also help reduce income inequality in Asia and the rest of the world. Investing in and increasing people’s access to these essential services are crucial
steps to promoting a healthy and educated population, able to participate in and contribute to economic growth, and live with dignity.

By increasing the budget allocation for health and education, governments across the region can support the implementation of the following policies:

**On education:**

- Build more classrooms and schools, especially in remote rural areas, and create the necessary infrastructure to make these accessible to students;
- Increase teachers' salaries and improve teacher education;
- Develop economic and social incentive programs to increase school attendance; and
- Strengthen and broaden access to vocational and skills training programs.

**On health:**

- Increase people’s access to medicine, vaccines, and medical services;
- Promote universal access to free healthcare; and
- Improve women's access to reproductive healthcare

7. **Live within planetary boundaries while ensuring that people’s essential requirements to live with dignity are met**

All policies should ensure that the country is not using more natural resources than is sustainable, or damaging the natural environment, such that future generations would be deprived of the same opportunities to live inclusively and sustainably. Government can adopt the following measures to ensure that development interventions, whether by business, government agencies, and other institutions, do not undermine the environment:

- Develop and enforce stricter environmental standards on waste treatment, carbon emissions, deforestation and land and land use conversions, while working in close consultation and coordination with communities;
- Explore market-based mechanisms to ensure that companies are paying the full environmental and inter-generational cost of their operations; and
- Help address climate change by adopting policies that promote renewable energy, reduce and, with the support of the international community, eventually phase out greenhouse gas emissions as part of a comprehensive low carbon development plan.
8. Promote fiscal justice

Fiscal justice is one of the best strategies to address inequality. It can help redistribute wealth by taxing the rich and using tax revenues to support programs that will empower the poor. It can also be used to influence the way companies operate and behave. Unfortunately, current tax structures in many countries put much of the tax burden on the poor. Governments can help promote fiscal justice by adopting a pro-poor fiscal reform agenda that incorporates the following measures:

- Increase the share of direct taxes vis-a-vis indirect taxes, so that the poor do not end up shouldering the cost of public spending;
- Eradicate loopholes that allow big corporations to unfairly reduce their tax burden—a process that will require policies that abolish tax breaks and incentives for investors, and discourage transfer pricing, among others;
- Develop a uniform corporate tax policy with harmonized tax rates on global and regional capital—a measure that will reduce incentives for corporations to move from countries with higher tax rates to those with lower ones—and work with other governments to reform the global tax system to help ensure that corporations pay their dues.
- Use tax revenues to support programs that expand poor people’s access to essential services, such as healthcare and education, and to productive resources, such as land and water rights, production capital, technology, and other support services.
- Apply environmental taxes to promote the judicious use of natural resources, implement carbon pricing schemes to reduce greenhouse gas emissions, and use the proceeds from these taxes and schemes to support programs that will help build economic and climate resilience.
NOTES


