



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 astonishing 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.¹
- 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.²
- In the past two decades, twelve countries, accounting for 82% of the region's population, have registered an increasing gap between rich and poor.³

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.⁴ 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.⁵ Sixty percent of the population in Asia and the Pacific have no social protection.⁶ 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.⁷

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.⁸ 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.⁹ 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.¹⁰ 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.¹¹ 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 2019,¹² 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.¹³

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 musical¹⁴ – '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.¹⁵ 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%.¹⁶ 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. 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.

1 INTRODUCTION

Amid much-vaunted economic growth in the last three decades, the Asia-Pacific region has experienced a '1% wonder', in which a handful of rich people control more than half of national wealth. Despite political pronouncements and inclusive growth mantras, it is hard not to wonder why the exact opposite is happening. After many years of growth with broad-based benefits, the economic growth model pursued by governments in the region is sucking these benefits upward. Labour's share of national income is declining, and many struggle to survive on pay too low to provide a decent life. Women's work is not treated equally and women face a heavy burden of unpaid care work. An unjust fiscal system allows rich corporations and individuals to avoid contributing their fair share to national revenue. Dwindling public services, such as universal healthcare, quality education and social protection, are not helping to provide future generations with opportunities in the way they should, and many people lack the voice to participate in policy and decision making processes. As APEC leaders come together in Vietnam from 5–11 November, this paper identifies eight steps they can take to address inequality, build a human economy and fulfil their commitments to the Sustainable Development Goals.

THE CHALLENGE OF FUNDING THE SUSTAINABLE DEVELOPMENT GOALS

The SDGs encompass 17 goals, which are broken down into 169 targets. These goals are closely interrelated, and their adoption is envisioned to eliminate poverty and inequality, safeguard the environment, and to promote peace, prosperity and a life with dignity for all. The goals support the core of people's development aspirations, and if implemented fully and well, can serve as the foundation for a 'human economy', where all is invested in safeguarding the earth's finite resources for the safety and well-being of future generations.

Figure 1: The Sustainable Development Goals



Source: United Nations Development Programme

However, realizing the SDGs requires resources. Expanding public education, ensuring universal health coverage, extending social protection, implementing reforms to give women access to economic resources, and providing many other services essential to meeting SDG goals and targets requires massive funding. Estimates place the additional spending needs in low-income and lower-middle-income countries to implement the SDGs at \$1.4 trillion per year.¹⁷

In order to meet the funding requirements for the implementation of SDGs, countries will have to generate additional tax revenues equivalent to 20–30% of GDP.¹⁸ However, Table 1 below shows that for many APEC member countries, the percentage of tax revenue to GDP in 2015 is typically below 20%. In developing Asia, Indonesia’s tax revenue to GDP ratio is one of the lowest, at 10.7% in 2015. Other APEC member countries in Asia that have a low tax revenue to GDP ratio are the Philippines and Singapore, both at 13.6%, Malaysia at 14.3% and Thailand at 16.3%.¹⁹ These figures mean that countries will have to intensify their tax efforts if they are to raise sufficient funds to meet the SDGs.

Table 1: Tax revenue to GDP ratio of selected APEC countries

Country	Tax to GDP ratio (2015)
<i>Australia</i>	22.1
<i>Canada</i>	12
<i>Chile</i>	17.5
<i>Indonesia</i>	10.7
<i>Japan</i>	11.14
<i>Republic of Korea</i>	13.9
<i>Malaysia</i>	14.3
<i>New Zealand</i>	27.5
<i>Peru</i>	15.0
<i>The Philippines</i>	13.6
<i>Singapore</i>	13.6
<i>Thailand</i>	16.3
<i>The United States</i>	11.14
<i>Vietnam</i>	19.1 (2013)

Source: World Bank Data²⁰

The experience of previous international and multilateral agreements on women rights emphasized the importance of having sufficient resources to deliver global goals. A UN assessment of the Beijing Platform for Action, which was agreed more than two decades ago, reported that the lack of adequate funds for investments on health, education, social protection, and water and sanitation were critical obstacles to meeting the targets set by the agreement.²¹

Unfortunately, current tax policies are not generating enough revenues for governments to deliver services essential to eliminating poverty and addressing inequality in line with the global goals. In fact, the desire to attract investors is fuelling a race to the bottom approach among countries when it comes to corporate taxes, and reducing potential tax revenues. 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.²² Indonesia plans to reduce its corporate income tax (CIT) rate from 25% to 17%, while the Philippines intends to cut its CIT by 20% in 2019.²³

There is no solid proof that lowering tax rates is a silver bullet to generating investor interest in countries. Studies show that businesses are more concerned with other factors – including market size and potential, institutional and regulatory quality, business regulation and government support, infrastructure and logistics, availability of skilled workers, and labour costs among others – in deciding whether or not to invest in a particular country.²⁴

The irony is that the more governments slash CIT, the fewer resources they have to provide services that are critical to building up these factors. Additionally, cutting corporate taxes puts

pressure on governments to increase indirect taxes such as value-added tax (VAT), which in turn affects market size and potential as it reduces the purchasing power of consumers.

Governments in the region must increase efforts to generate enough tax revenues to support the global goals. However, they must do so in a way that does not pass on the bulk of the tax burden to the poor, as this will undermine the very SDGs that they want to support and realize. Studies show that Asian tax systems are highly regressive, as most of the tax revenue is collected through VAT on goods and services that are consumed by everyone, rich and poor alike, but especially poor people. Indeed, it is estimated that Asia's tax policies, considered to be among the world's most regressive tax systems, contribute to greater inequality, raising the Gini coefficient by four points.²⁵

Value-added taxes especially affect women. Studies show that women spend more than men on food, clothes, medicine, school supplies and other family necessities.²⁶ Moreover, some tax policies and practices, such as the joint filing of taxes, are not favourable for women. Women usually earn less than men due to gender wage gaps and other factors. However, the tax rate applied to women is based on their combined income with their husbands, forcing them to pay more taxes than they should.

Tax measures such as those levied on property, capital gains and inheritance target the rich and can help redistribute wealth. An Asian Development Bank (ADB) report, using data from 21 countries, showed that these taxes account for a very small share of tax revenues in many countries. For instance, property taxes in 2013 contributed 10% or less of tax proceeds in all countries in the study, with the exception of China. In some countries, property taxes are reported as part of other taxes, making it difficult to ascertain the revenues generated from this measure.²⁷ Adopting policies to ensure the application of these tax measures can help generate tax revenues which can be used to support education and health programmes that are critical to addressing poverty and inequality.

Oxfam's research on the Commitment to Reduce Inequality Index, which measures governments' commitment to reduce the gap between the rich and the poor, notes a worrying trend in terms of tax policies. Its observation of 150 countries finds that progressive corporate tax has dropped to 24%, while progressive personal income tax has been cut to 30%. Meanwhile, VAT rates are on the rise and are now at 15%. Oxfam also observes that governments are not able to collect taxes efficiently – tax productivity levels for personal and income tax are at only 15%, while collection for VAT is at 40%.²⁸

Estimates indicate that if Asia's current tax revenue to GDP ratio is improved so that it approximates global averages, the region will have enough resources to undertake one of these efforts: (1) increase spending for health services at a level equivalent to 5% of GDP; (2) ensure that all children have access to primary education by 2020, and to secondary education by 2030; (3) provide benefits equivalent to the national poverty line to people with disabilities between the ages of 15 and 65; or (4) ensure a universal non-contributory pension, also equivalent to the national poverty line, for all people aged 65 or older.²⁹

Unfortunately, many governments have yet to address tax risks and plug tax loopholes in order to maximize tax revenues. According to the ADB, tax revenue bodies have observed a host of practices that undermine tax compliance, such as non-payment of tax debts, non-filing of returns, profit shifting, tax avoidance schemes, VAT fraud, and tax evasion related to the 'hidden economy'.³⁰ Table 2 shows the results of a survey on tax compliance risk with tax revenue bodies in 18 countries.

Table 2: Major areas of tax compliance risk (✓where applicable)

Economy	Profit shifting/transfer pricing	Other tax avoidance schemes	Value-added tax fraud	Other tax fraud	Hidden economy	Evasion – illegal activities	Other evasion	Unpaid tax debts	Non-filing of returns
<i>Australia</i>	✓	✓	✓	✓	✓				
<i>Brunei Darussalam</i>		✓						✓	✓
<i>Cambodia</i>		✓	✓	✓	✓	✓	✓	✓	✓
<i>China, People's Rep. of</i>	✓	✓	✓					✓	✓
<i>Hong Kong, China</i>	✓	✓					✓	✓	✓
<i>Indonesia</i>	✓	✓	✓					✓	✓
<i>Japan</i>	–	–	–	–	–	–	–	–	–
<i>Korea, Rep. of</i>	✓	✓	✓		✓			✓	
<i>Kyrgyz Republic</i>		✓	✓	✓	✓	✓	✓	✓	✓
<i>Malaysia</i>	✓	✓			✓			✓	✓
<i>Maldives</i>								✓	✓
<i>Mongolia</i>	✓	✓	✓	✓	✓	✓		✓	✓
<i>New Zealand</i>	✓	✓		✓	✓			✓	
<i>Papua New Guinea</i>	–	–	–	–	–	–	–	–	–
<i>Philippines</i>		✓	✓		✓	✓	✓	✓	✓
<i>Singapore</i>	✓	✓	✓	✓	✓				
<i>Tajikistan</i>		✓	✓	✓	✓			✓	✓
<i>Thailand</i>	✓	✓	✓		✓			✓	

Source: Asian Development Bank 2016³¹

Governments can also help to raise tax revenues by preventing tax dodging and tax evasion. In Vietnam, a nationwide investigation discovered that in 2013, 83% of foreign companies were able to minimize tax liability through various means. The Taxation Department reports that 720 out of 870 foreign firms in Vietnam committed tax fraud and had been required to pay back VND 400bn (\$19m) in tax penalties.³² In Indonesia, wealthy individuals use tax havens to hide their wealth and assets, enabling them to evade paying their fair share of taxes. Estimates put the value of Indonesian wealth stashed in Singapore alone at \$200bn.³³ Data from Global Financial Integrity shows that assets worth \$180bn flowed out of Indonesia illicitly from 2004 to 2013.³⁴ APEC leaders must develop regional frameworks and policies to prevent tax evasion and dodging, and must actively participate in global and multilateral platforms to address these issues.

APEC leaders also need to exercise the political will to buck the trend of racing to the bottom in terms of corporate income taxes and tax incentive packages. Instead of competing with each other to offer the lowest tax package to companies and investors, APEC member countries should foster closer cooperation in enhancing tax administration capacity, improving tax productivity, promoting progressive taxes, and building more efficient and more transparent tax collection systems. This type of cooperation can help APEC countries increase tax revenues to support programmes addressing poverty and inequality.

2 INCREASING SPENDING FOR SOCIAL SERVICES

Box 1: Health inequality in Vietnam – the price of a kidney

Oanh is a 27-year-old kidney dialysis patient who lives in Hanoi with her partner, Vinh. She moved to Hanoi from rural Me Linh District so that she can receive the hospital treatment she needs three times a week. Government health insurance covers the cost of her dialysis, but Oanh has to cover the cost of her daily medication herself. She cannot afford to pay for a kidney transplant.

'I feel sad for myself when I see the prescriptions I cannot afford. People who can afford medicine are healthier. I feel that my life is too difficult and I am stuck. It is really unfair.'

Oanh earns around \$50 a month unofficially selling tea in the hospital, which just about covers her medical costs, but as she lacks permission to work there she worries she will be stopped.

Her partner's income has to cover all other essentials, such as rent and food. Her parents have had to sell farmland and assets to cover the cost of her emergency care.

'When people are sick, all poor families have to borrow money. If the government provided support when we are sick, I would have fewer burdens. My life wouldn't be as hard.'

Source: Oxfam (2017) Even It Up: How to tackle inequality in Vietnam

Across the region, millions struggle with ill health, especially women. The rich can buy the best healthcare, but the poor are always confronted with the fear of getting sick and the fear of giving birth, for want of good medical care. Oanh's story paints a picture of how the cost of healthcare can drive families into poverty.³⁵

Poor families find it difficult 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.³⁶ The Indonesian government's allocation for education services is pegged at 3.4%, which is lower than UNESCO's standard for education spending at 4–6% of GDP.³⁷ Private schools account for 40% of enrolment, shutting out poor families who cannot afford to send their children to these schools.³⁸

All these examples illustrate the importance of spending on social services to address poverty and inequality. Tax policies represent one side of the fiscal policy coin. The other, equally important, side focuses on how tax collections are spent. Using tax revenues to fund essential social services such as health and education is critical to ensuring zero poverty and narrowing the gap between rich and poor. Apart from serving as direct transfers to the poor, health and education services are proven to have a tremendous impact in addressing poverty and reducing inequality.

Studies indicate a connection between government spending on health services as a percentage of GDP and the percentage of households with very high, crippling health spending. Asia will have to work harder to increase public investment in health services. The region's total spending on health services is at only 4.18% of GDP in 2013, less than half of OECD countries' average allocation of 9.3% of GDP.³⁹ In most Asian countries, public or government spending on health services accounts for less than 2% of GDP. In fact, many countries in the region have a very

small budget allocation for health programmes and initiatives, with the notable exception of China, Vietnam and Thailand.⁴⁰ Even in these countries, the privatization of health services and the cost of out-of-pocket payments, such as for medicine and other medical services, place a tremendous burden on poor people. In 2012, expenses related to healthcare pushed 583,724 Vietnamese families further into poverty.⁴¹

Government allocation for health services is especially important for women. 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.⁴² Ninety percent of these deaths could be prevented by good quality maternal care. Improving government spending on maternal healthcare is essential to saving the lives of thousands of women every year in the region.

In the same way, governments must allocate resources for education. Spending on education is essential to building a highly skilled workforce, and is a critical strategy to improve productivity and increase wage levels. An ADB study found that education has a major impact on income distribution. It showed that a higher level of education for those aged 15 and above translates to better income distribution, while education inequality has a negative impact on the same.⁴³ Asia has proven to be relatively more effective than other regions in leveraging education to address inequality. In the region, an increase of one percentage point in government spending on education narrows inequality by 0.49 percentage points – better than the rest of the world, where the average counterpart increase reduces inequality by 0.34 points.⁴⁴ However, as with healthcare, Asia is also lagging behind in terms of expenditure on education. The region's spending on education is at 2.9% of GDP compared to the general average of 5.9% among developed countries, and 5.5% in Latin America.⁴⁵ In general, expenditure on social services in the region is at 10% of GDP, while advanced economies allocate more than three times this amount.

Access to education is important for all, especially for girls and women. Educating women benefits the economy and society in general. According to UNESCO, it is estimated that some countries lose more than \$1bn a year as a result of not educating girls at the same level as boys.⁴⁶ UNESCO also reported that a child born to a mother who can read has a 50% higher probability of surviving past age five, and that every additional year of a mother's schooling reduces the probability of infant mortality by 5%.⁴⁷

Governments also need to allocate funds for social protection, which is essential in helping people deal with risk and vulnerability, and provides support in times of extreme and chronic poverty. Social protection is intended to protect the rights and improve the status of marginalized and vulnerable groups.⁴⁸ The ADB reports that close to two-thirds or 60% of the population in Asia and the Pacific have no social protection.⁴⁹ 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.⁵⁰

All these findings underscore the need for APEC leaders, especially those from Asia, to work together in developing and leveraging fiscal policies so that these become instrumental in meeting the global goals on poverty and inequality.

3 FAIR WAGES AND LABOUR RIGHTS

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.⁵¹ For many of these workers, wages are their main source of living. Raising their wages to a level that will allow them to live a decent life is essential to addressing poverty and inequality. Unfortunately, many workers in Asia, especially those employed in the informal sector, are trapped in jobs that pay very little, often with very little social protection. Many are confronted with gross labour rights violations such as long hours of work, poor working conditions and even slave labour. Women, who generally earn less than men, and who shoulder the bulk if not all of the care work in their family and society, are often in vulnerable employment.

Workers in developing countries get a very small share of the value of the goods they produce, highlighting the gross inequalities in many value chains. A look into the global supply chain in the garments 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.⁵² In the banana supply chain, workers in farms and plantations get 7%, producers get 13%, while retailers capture about 41% of the value of the commodity.⁵³ These examples emphasize existing inequalities in supply chains, which underpin the bigger problem of poverty and the ever-widening gap between rich and poor.

The last few decades saw the situation getting worse, as workers' share in national income got smaller and smaller while that of people with capital grew bigger and bigger. The OECD observes that the average adjusted share of labour to income in G20 countries dropped by 0.3 percentage points per year between 1980 and the late 2000s.⁵⁴

THE MINIMUM WAGE IS A FRACTION OF THE LIVING WAGE

Wages represent the value that is accorded to workers' contribution in the production of goods or delivery of services. Unfortunately, in many supply chains, wages are deliberately kept low in order to maximize profits for companies. The Asia Floor Wage Alliance looked at the minimum wage levels, as prescribed by law or policy, in the garments sector in selected countries in Asia, and compared this with an Asia Floor Wage. The Asia Floor Wage was calculated based on the basic needs of workers and their dependants for housing, food, education and healthcare.⁵⁵

Table 3: Comparison of minimum wage and living wage in garment-producing countries

Country	Minimum wage	Living wage	Minimum wage as a percentage of living wage
<i>China</i>	174.6	376.07	46%
<i>India</i>	51.7	195.30	26%
<i>Sri Lanka</i>	50.31	259.46	19%
<i>Malaysia</i>	196.06	361.21	54%
<i>Cambodia</i>	72.64	285.83	25%
<i>Bangladesh</i>	49.56	259.8	19%
<i>Indonesia</i>	82.14	266.65	31%

Source: Asia Floor Wage Alliance, 2014⁵⁶

Table 3 shows that workers' pay is simply not enough to give them and their families an opportunity to meet living needs. In many countries in the region, workers earn only a fraction of what they need to meet the essential requirements of a decent life, and many workers are locked in value chains that foster high levels of inequality.

INCREASED OUTPUT DOES NOT MEAN HIGHER INCOME FOR WORKERS

Studies indicate that workers do not share in the benefits from increased productivity and production. In the USA, net productivity grew by 72.2% between 1973 and 2014. However, the hourly pay for the median worker (adjusted for inflation) increased by only 8.7%.⁵⁷ The disconnection between wages and output highlights the limitation of pinning development goals – especially the objective of eliminating poverty and reducing inequality – solely on expanding economic production, as economic growth does not automatically translate into improved wages for workers.

There is a growing precariousness of labour, even in the formal economy. This is manifested in a growing trend of employers providing short-term contracts, subcontracting to informal production units and disregarding labour regulations, particularly those relating to job security and wage. This 'informalization' of labour within the formal economy is undermining norms and standards on labour and social protection. All these factors have an impact on the yearly income of workers, and consequently on the share of labour in national income.

Women in Asia are confronted with low wages, wage discrimination based on gender, and less access to formal and stable jobs. In Asia, women generally earn 70–90% of what men earn.⁵⁸ They carry the responsibility for work required to keep the household running, taking on at least 2.5 times as much care work as men.

Women are also more likely to be engaged in vulnerable employment compared to men,⁵⁹ due to a host of social, economic and cultural factors. In this context, women in the informal sector are getting the shortest end of the stick – they do not have access to social protection and they earn less than men, at wage levels that are not enough to allow them to meet the basic needs to live a decent life.

VIOLATION OF LABOUR RIGHTS AND OTHER LABOUR ISSUES

Very low wages and lack of social protection have serious repercussions on workers' wellbeing. But as serious as they are, they barely scratch the surface of the many challenges confronting workers in APEC countries and the rest of the Asia-Pacific region. Gross labour rights violations such as the use of slave and child labour, work-related gender discrimination including sexual exploitation, and the abuse and mistreatment of migrants and internally displaced people, are highly prevalent. The International Labour Organization (ILO) estimates that there are more than 11 million people in the region in forced labour.⁶⁰ Most of the workers forced into bonded labour – through deception, coercion and intimidation – are involved in domestic work, agriculture, construction, manufacturing and entertainment.

Many workers are also forced to endure inhumane working conditions, such as very long hours, and unsafe and unhealthy work environments, as companies maximize profits by slashing production costs, especially on labour. This situation is not only happening in low- and middle-

income countries, but in advanced economies as well. Two years ago, Oxfam called public attention to the situation of workers in the poultry processing sector in the USA. Dubbed 'Lives on the Line', the campaign showed how workers from vulnerable groups – migrants, refugees and minorities – endure long hours of repetitive work, with very little time to rest. They are often denied bathroom breaks, prompting them to wear diapers in order to keep up with the work.⁶¹ The well-documented situation of workers on fishing vessels in Thailand, many of them trafficked from other countries in South-East Asia and subjected to slave labour, highlights the regional nature of this problem – and the need for regional action to address it.

Addressing the drivers of low wages and labour rights issues

The Vietnamese government has identified the promotion of inclusive growth as one of the top priorities for the coming APEC meeting in Vietnam in November 2017. It hopes to achieve this goal by enhancing labour productivity, improving human resources development and ensuring greater resource allocation to public services.⁶² Allocating resources for health and education services is a critical investment in human resource development and supports the goal of making development more inclusive and sustainable. This is important, as raising labour productivity and output alone does not necessarily translate into higher wages and incomes for workers, and will therefore have a limited impact on poverty and inequality.

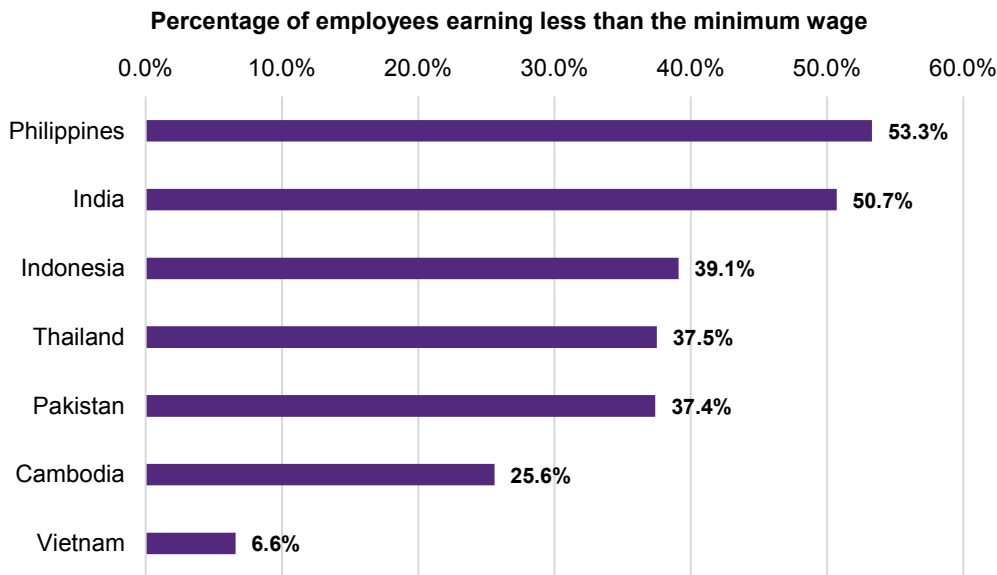
APEC leaders can help promote sustainability and inclusion by ensuring that workers have a fair share in income, are paid a minimum wage that allows them and their families to live a decent life, and that their rights are respected and upheld. To do this, APEC leaders must address the main obstacles to achieving these conditions. These include the non-implementation of existing labour regulations and policy gaps in addressing key labour issues; the pressure among businesses to maximize profits at the expense of labour; and workers' limited bargaining leverage.

Non-implementation of policies and policy gaps in addressing labour issues

The ILO reports that more than 90% of its member countries have already enacted minimum wage laws.⁶³ Despite the adoption of these laws, in many countries in Asia workers continue to receive compensation that is below minimum wage rates, much less at living wage levels. One reason for this is that a large segment of the workforce in the region is employed in the informal sector, which is hardly touched by labour legislation, if at all.

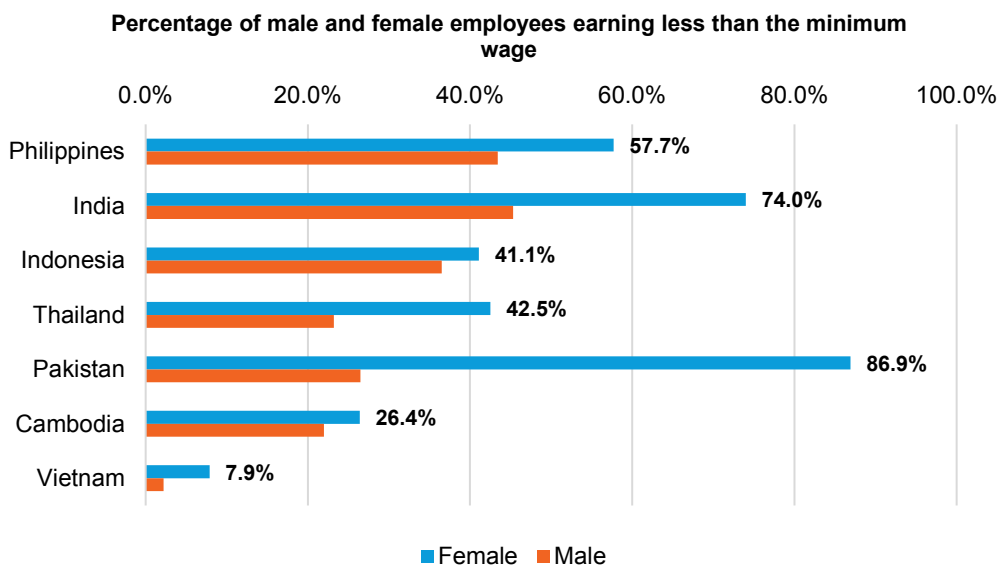
Another critical factor is that many companies are not always inclined to comply with these laws, simply because they can get away with it. Governments are not always able to carefully monitor and/or strictly enforce existing labour policies. Indeed, despite the existence of relevant legislation, companies do not always observe regulations on the minimum wage. Data from the ILO indicates that only a fraction of garment workers are paid the minimum wage prescribed by law. Figure 2 below shows that about half of garment workers in the Philippines (53.3%) and India (50.7%), and about one-third in Indonesia (39.1%), Thailand (37.5%) and Pakistan (37.4%) receive payment below the minimum wage.

Figure 2: Non-compliance with the minimum wage in the garment sector



Source: ILO⁶⁴

Figure 3: Non-compliance with the minimum wage in the garment sector by gender



Source: ILO⁶⁵

Figure 3 above clearly shows the specific vulnerability faced by women in the workforce. Women are more likely than men to receive wages below the minimum. The difference between men and women in terms of non-compliance with minimum wages is particularly notable in Pakistan, as well as in India, Thailand and the Philippines. Minimum wage levels in many countries in the region are actually a fraction of the amount that workers need to meet their basic needs. This highlights the need for government leaders to work together – not only to improve compliance but also to strategize on how to compel companies to address gender wage gaps, pay workers higher wages and give them a fair share of profits. APEC is in a unique position to provide a platform where developed and developing countries can share information and best practice on labour, and support each other in meeting relevant global and regional agreements, conventions, norms and practices, such as the UN Guiding Principles on Business and Human Rights.

THE ROLE OF THE PRIVATE SECTOR

Many of the world's biggest companies operate through a system of complex supply chains. Multinational companies source different components of their products from various sources and suppliers all over the world. They employ millions of workers as part of what the International Trade Union Confederation (ITUC) refers to as the 'hidden workforce' – workers who are not directly employed by the company but are nevertheless connected to it through the supply chain. The ITUC reports that 50 of the world's most powerful companies, with combined revenue of \$3.4 trillion, maintain a hidden workforce of 116 million people.⁶⁶

The nebulous connection of these companies with workers in various supply chains makes them less accountable for labour problems. It frees them up from the responsibility of ensuring that their operations observe labour laws and regulations, and it gives them a way out – a means to absolve themselves of the potential liability for non-compliance. More importantly, it allows corporations to sever the connection between workers' contribution and company profits. ITUC has noted that the combined profits of 25 companies, equivalent to \$190.2bn, could increase the wages of more than 71 million people in their hidden workforce by \$2,552 for one year.⁶⁷

Making companies responsible for all workers in their supply chain requires a change in company culture, policies and operations. The impetus for change can come from different directions. It can be a result of changing the mindset and priorities of management, or a result of engagement with different stakeholders, including an empowered labour union. It can also be an outcome of consumer pressure. For instance, following Oxfam's 'Lives on the Line' campaign, the US company Tyson Foods committed to improving the working conditions and compensation for workers in poultry processing.

But the most important determinant of company behaviour is effective government regulation. Governments have the power to impose sanctions – including suspending licences to operate – on companies that do not follow the law. However, governments must have the political will to use this power in order to show the private sector that they are serious about ensuring the full implementation of national labour laws and international labour standards.

STRONGER TRADE UNIONS

The presence of strong trade unions is a critical determinant of workers' ability to negotiate higher wages and better working conditions. Trade unions are usually able to increase members' wages by 20% through collective bargaining. Unfortunately, the trade union density rate – the number of workers that are members of unions as a proportion of the workforce – is very low in Asian countries. Fewer than 10% of workers are members of trade unions in Thailand (3.6%), the Philippines (8.5%), Malaysia (9.4%) and Indonesia (7%).⁶⁸ Moreover, ITUC observes a downward trend in the trade union density rates all over the world over the period of 2000 to 2013, including in Asia but with the exception of Singapore.⁶⁹

Table 4: Trade union density rates

Trade Union Density Rates		
<i>Country</i>	<i>TUD</i>	<i>Year</i>
<i>Australia</i>	17	2013
<i>China</i>	42.6	2013
<i>India</i>	13	2012
<i>Indonesia</i>	7	2012
<i>Israel</i>	23	2012
<i>Japan</i>	17.8	2013
<i>Korea, Rep. of</i>	10.1	2012
<i>Malaysia</i>	9.4	2013
<i>New Zealand</i>	19.4	2013
<i>Occupied Palestine Territory</i>	8.3	2013
<i>Philippines</i>	8.5	2013
<i>Singapore</i>	19.4	2012
<i>Sri Lanka</i>	23.2	2011
<i>Syria</i>	19.4	2007
<i>Thailand</i>	3.6	2010
<i>Viet Nam</i>	14.6	2011

Source: International Trade Union Confederation⁷⁰

Creating a policy environment that supports rather than cracks down on unions is key to ensuring that workers are able to negotiate for better wages and working conditions. The power of organized workers to promote better working conditions for workers, especially women, was recently made evident in the Philippines. In August 2017, the Philippine Department of Labor and Employment ordered employers to stop requiring women workers to wear high heels to work, and to provide ‘sitting breaks’ for workers.⁷¹ The order came in response to calls from the country’s Association of Labor Unions.⁷² This is a welcome development for thousands of saleswomen employed in shopping malls, who were required by their employers to wear high heels and makeup, and to stand throughout their shifts.

The order from the Philippine Department of Labor and Education demonstrates the value of combined efforts between workers and government to protect the rights of women workers to decent working conditions. Efforts to create tripartite mechanisms consisting of representatives from governments, workers and companies are important in fostering social dialogue that delivers for men and women workers. It is one way to ensure that workers, including informal workers, have a voice to articulate and push for their interests in spaces where decisions that affect their lives are made.

4 STRENGTHENED COMPETITIVENESS OF MICRO, SMALL AND MEDIUM ENTERPRISES

The Vietnamese government identified the need to strengthen the competitiveness of micro, small and medium enterprises (MSMEs) as one of the main priorities of the coming APEC meeting.⁷³ Vietnam recognizes the critical and potential role that SMEs play in generating employment and economic growth.⁷⁴ Vietnam's decision to prioritize SMEs is affirmed by the growing importance of such enterprises in many economies in Asia. The rise of small businesses has become the new growth model in the region, especially in light of the global economic slowdown.⁷⁵ MSMEs employ more than half (62%) of the labour force and account for 96% of all enterprises in 20 countries across Asia.⁷⁶ They account for 40% of total export revenues in China and India, 26% in Thailand, 19% in the Republic of Korea and 16% in Indonesia.⁷⁷ They constitute a substantial segment of the corporate sector in less developed countries such as Cambodia, Lao PDR and Nepal.⁷⁸

Supporting MSMEs can help expand opportunities for livelihoods and income for people in the region. The fact that in a developed country like Japan, 99% of all firms, 70% of total employment and 50% of GDP come from SMEs indicates the economic potential of this business model. However, despite their important contribution to the economy in many countries in the region, the survival rate for MSMEs is low.⁷⁹

APEC, through its SME Working Group (SMEWG), recently adopted the SMEWG Strategic Plan for 2017–2030,⁸⁰ which outlines APEC's initiative to create an enabling business environment for SMEs. Efforts to support MSMEs focus on helping them access finance and capital, improve ease of doing business, and become better integrated in global supply chains. APEC is putting special emphasis on helping SMEs link to export markets. However, linking SMEs to the global supply chain and helping them take advantage of trade opportunities in international markets – while most likely envisioned to help expand markets for their products and services and give them access to technology, capital and other inputs – also makes them vulnerable to global market fluctuations.

MSMES AS A STRATEGY TO PROMOTE GENDER-TRANSFORMATIVE DEVELOPMENT AND WOMEN'S ECONOMIC EMPOWERMENT

The growth of MSMEs, and the priority accorded to it by governments, offers opportunities for women. MSMEs have the potential to support women's economic empowerment and gender-transformative development. They help women raise income and expand the economic opportunities available to them. Equally important, MSMEs help transform gender power relations at household and community levels. Studies show that when women earn more and have greater bargaining power within households, they spend more on children's education and on family health and nutrition.⁸¹ The benefit of women's economic empowerment extends to the economy, as it helps expand global output per year by 26%.⁸²

Supporting MSMEs that are led and owned by women and that employ women offers high potential for addressing poverty and gender inequality at household and national levels. Unfortunately, the challenges faced by SMEs are further magnified for women. Women face more barriers in accessing finance and capital and other productive resources.

APEC's initiative to support women-led enterprises is focused on eventually enabling women-led SMEs to gain access to global markets, mainly by identifying and addressing economic barriers. However, some of the more critical obstacles to women's participation and leadership in these enterprises are not economic in nature. One of the biggest challenges women confront is the issue of time poverty, as women are primarily responsible for care work, even while they are engaged in economic activities. National and regional policies aimed at increasing public funds for services that support care work could go a long way in enabling them to take advantage of income opportunities offered by MSMEs.

However, as mentioned earlier, it is important to rethink the strategy of encouraging enterprises to focus solely or largely on export markets, as this increases their vulnerability to global market volatility. APEC policies aimed at expanding the purchasing capacity of domestic consumers – such as through social spending and less regressive tax policies – can help create vibrant domestic markets.

APEC must invest in providing a package of support to MSMEs, especially those led by women. This should include facilitating MSMEs' access to financial services and capital, building capacity on enterprise development and management, and increasing public investments in services that support care work. The latter will help women to address the issue of time poverty and enable them to invest time in building and operating MSMEs.

MEASURING PROGRESS IN REDUCING INEQUALITY

Apart from implementing policies aimed at promoting fiscal justice, gender equality, access to essential services and fair wages, APEC member governments must also set clear targets on how to reduce inequality itself. In particular, governments should strive to:

- Develop national plans to reduce inequality, aiming for a Palma of 1,⁸³ or where the top 10% have the same income as the bottom 40%.
- Support an inequality data revolution, collecting accurate data on top incomes and wealth.

SDG 10 states the aim that by 2030, the world will progressively achieve and sustain income growth of the bottom 40 percent of the population at a rate higher than the national average. This is an important goal as it highlights the need for governments and all stakeholders to work together to increase the income of the poorest segment of society at a level higher than national income growth, and to sustain this increase. A crucial component of this plan is investing in generating data and information that will allow us to have a better understanding of the income not only of the bottom 40% but of the top 10% as well. Understanding the income sources and structure of the poorest and the richest will provide a wealth of information that can inform the design of interventions to close the inequality gap, and to develop indicators that will measure the extent to which this goal is being achieved.

However, inequality is so much more than the growing income gap between rich and poor. Income inequality is underpinned by, and exacerbates, other forms of inequality, such as inequality between men and women, inequality of voice and participation in policy and decision making, and inequality of opportunity, among others. Capturing and measuring these inequalities

is a crucial first step in understanding and addressing them. Progress needs to be measured not only in terms of GDP growth but also in terms such as people's ability to participate in and contribute to decision making in both the public and private sector and spheres, their access to opportunities, and the extent to which societies promote gender equality, to name a few.

5 RECOMMENDATIONS

The APEC Economic Leaders' Meeting is an excellent opportunity for leaders to work together and with other stakeholders, especially civil society groups and people's organizations, in promoting and realizing sustainability and inclusion. Eliminating poverty and addressing inequality in all its forms require policies and action that go beyond APEC's standard formula of liberalizing trade and investments in pursuit of economic growth. Inclusive growth should take on a real meaning for its people and not treat citizens as passive recipients. Below are eight key commitments and decisions that APEC leaders can adopt in Vietnam:

- 1. APEC leaders must recognize that rapidly growing inequality is a serious threat to growth and prosperity in the region.** They should all agree to 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.** As part of a global community bound by and committed to achieving sustainable development, APEC must help strengthen regional and global tax cooperation. It 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 allocate resources to improve and expand education and health services. They must set clear targets to increase the reach and enhance the quality of education and health programmes in their respective countries, and must allocate budget to ensure the implementation of policies and programmes to achieve these targets.
- 4. Promote living wages; protect and respect human and labour rights.** Higher wages directly translate to higher incomes for workers and their families. APEC leaders should legislate the use of living wages as a central component of a strategy to promote economic inclusion in member countries. APEC should likewise push member governments to live up to agreements and conventions relevant to promoting labour rights, particularly the Bali Declaration and the UN Guiding Principles on Business and Human Rights. The Bali Declaration, which was adopted during the ILO Meeting in Asia and the Pacific in 2016, puts forward a comprehensive set of principles and recommendations to promote decent work and uphold the rights of workers. Finally, APEC should create mechanisms to monitor and ensure that labour laws are implemented, for example through the creation of an APEC business advisory council that regularly reports on due diligence on human rights in supply chains.
- 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 importantly, 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 to 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 for representatives from people's organizations and civil society groups to participate in APEC processes, demonstrating APEC's spirit of inclusion.** The Vietnamese government is in the perfect position to take the lead in moving APEC to create mechanisms that will enable civil society groups and people's organizations to participate and provide inputs in APEC decision making. In particular, we encourage the Vietnamese government, as this year's leader of APEC, to 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.
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 1,⁸⁴ where the top 10% have the same income as the bottom 40%. 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. 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.

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