

Poverty in the time of prosperity: Asian economic growth and its effect

In Asia we are really in the middle of neo liberal honeymoon. There is a lot of recent optimism regarding international capital that growth rates are going up. Data shows that in the last few years per capita growth is going up as population growth has been decreasing. The whole notion of emerging Asia is coming up led by China, (East Asian newly industrialized states like Korea, Singapore, Hong Kong). Everywhere there is relatively high GDP. IMF projections shows really high levels of growth. It shows that globalization is giving us conversions of global economies. Gini coefficient shows that inequalities are going down, but it is really because of China. Without China and India Gini coefficient which actually go up.

In the 1960s the difference in the per capita GDP of 20 rich countries was 54 times that of the 20 poor countries. In the next 40 years the average per GDP of 20 rich countries will increase 180 times. Regional per capita income as a percentage of high income OECD average per capita income. In South Asia it is less than half of Sub- Sahara. In the Sub-Saharan region OECD average per capita income for 1981-85 was 3.1% and 2.0% in 1996-2000.

In South-Asia in 1981-85 it was 1.3% which went up to 1.5% in 1996-2000. In the middle-east it was 9.0 and went down to 6.8%. In east-Asia from 1.7% in 1981-85 it went up to 3% in 1996-2000..So vis-à-vis European countries East Asia is where Sub-Saharan countries were in 1981-85.

If we look at the Dollar-a- day PPP(Poverty rates by various regions) we see that there has been an increase in poverty in all regions, stagnation in poverty except in China and Vietnam. In Central and Eastern Europe poverty has increased. 80% of people in South Asia are living below \$2 a day. In China this rate has decreased but it is not so in India.

So we are talking of poverty in times of prosperity. The reason for this is inequality. There has been change in worker centric policies to capitalist policies. From early 60s and 70s there has been a decline in the profit share, which shows that the bargaining power of the people are going down. In this period of explosion of neo liberalism there are large inequalities in wages. This is especially due to the financial sector. So why this paradox? Why poverty during prosperity? Lets look at the Figures below-

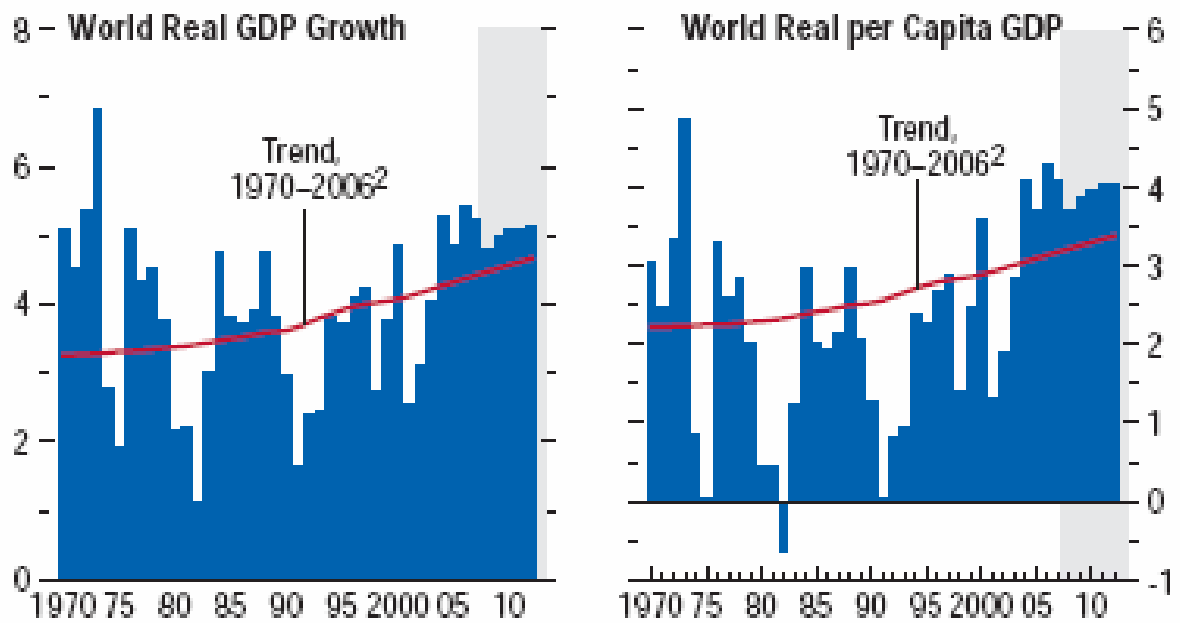
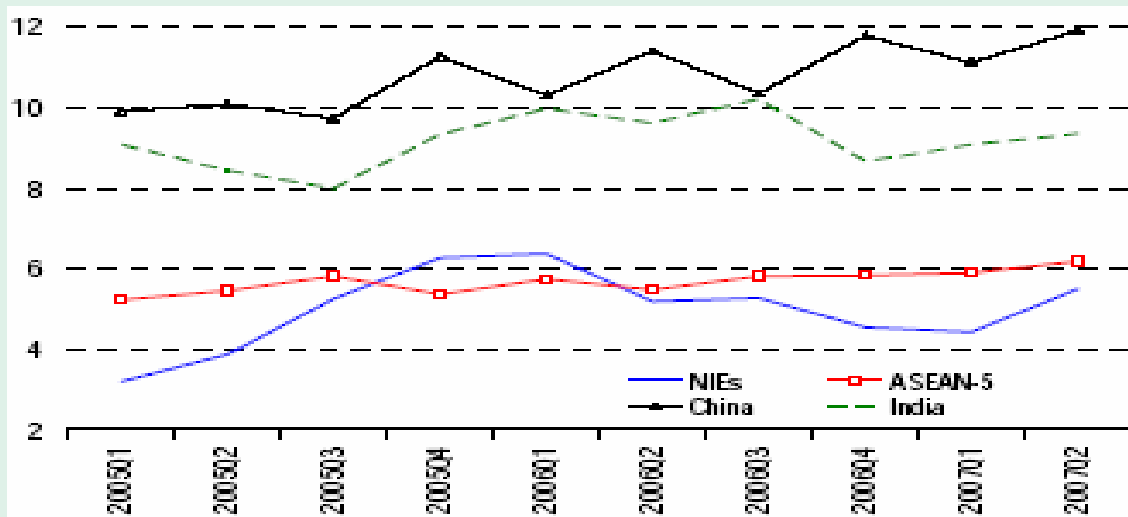


Figure 1.1. Emerging Asia: GDP Growth
(Year-on-year percent change)



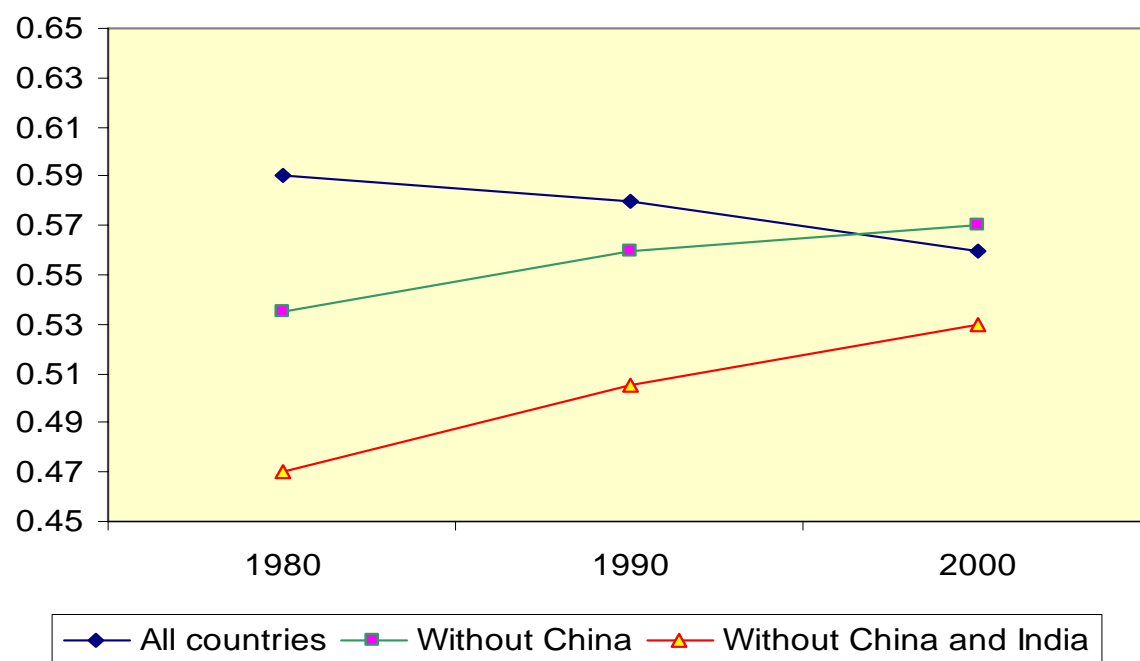
Sources: CEIC Data Company Ltd; and IMF staff calculations.

Table 1.3. Asia: Real GDP Growth
(Year-on-year percent change)

	2005	2006	2007	2008	2007	2008
			REO April 2007		Latest Proj.	
Industrial Asia	2.0	2.2	2.4	2.1	2.3	2.0
Japan	1.9	2.2	2.3	1.9	2.0	1.7
Australia	3.0	2.5	2.6	3.3	4.4	3.8
New Zealand	2.7	1.7	2.5	2.6	2.8	2.3
Emerging Asia	8.6	9.3	8.5	8.1	9.4	8.5
<i>NIEs</i>	4.7	5.3	4.6	4.6	4.9	4.4
Hong Kong SAR	7.5	6.9	5.5	5.0	5.7	4.7
Korea	4.2	5.0	4.4	4.4	4.8	4.6
Singapore	6.6	7.9	5.5	5.7	7.5	5.8
Taiwan POC	4.1	4.7	4.2	4.3	4.1	3.8
China	10.4	11.1	10.0	9.5	11.5	10.0
India	9.0	9.7	8.4	7.8	8.9	8.4
<i>ASEAN-5</i>	5.5	5.7	5.8	6.0	5.9	5.8
Indonesia	5.7	5.5	6.0	6.3	6.2	6.1
Malaysia	5.0	5.9	5.5	5.8	5.8	5.6
Philippines	4.9	5.4	5.8	5.8	6.3	5.8
Thailand	4.5	5.0	4.5	4.8	4.0	4.5
Vietnam	8.4	8.2	8.0	7.8	8.3	8.2
Asia	7.2	7.9	7.2	6.9	8.0	7.2

Source: IMF, WEO database.

Gini coefficient among countries



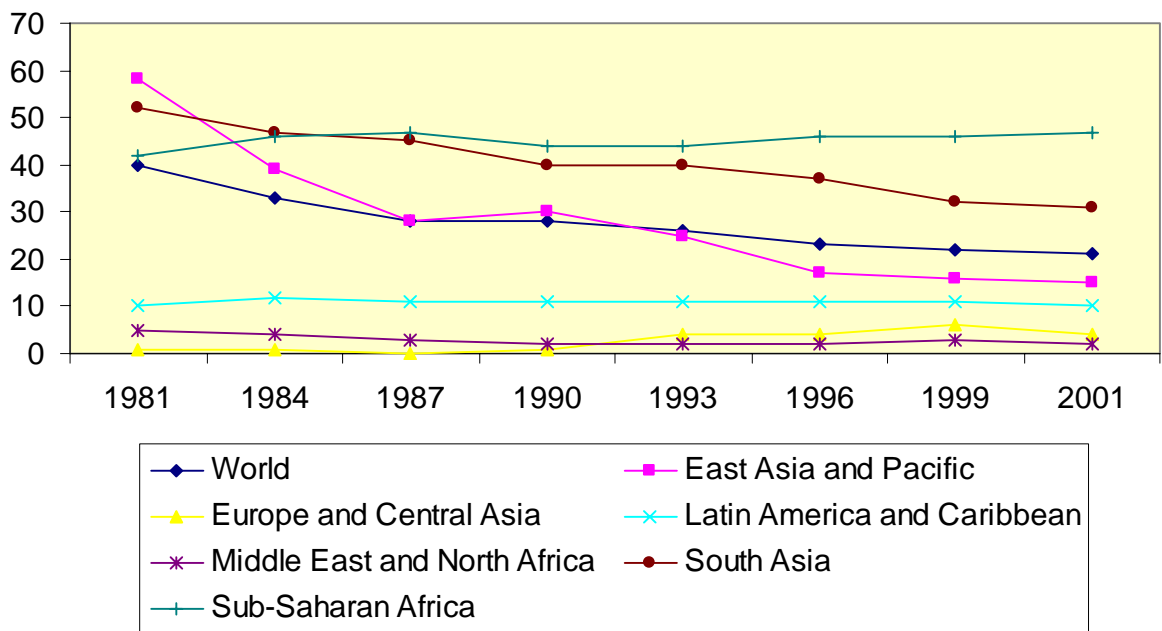
Differences in per capita GDP between richest and poorest countries

- In 1960-62, the average per capita GDP of the 20 richest countries was 54 times that of the 20 poorest countries.
- In the next 40 years, the average per capita GDP in real terms of the 20 richest countries increased by 180 per cent, while that of the 20 poorest countries increased by only 25 per cent.
- So by 2000-02, the average per capita GDP of the 20 richest countries was 121 times that of the 20 poorest countries.

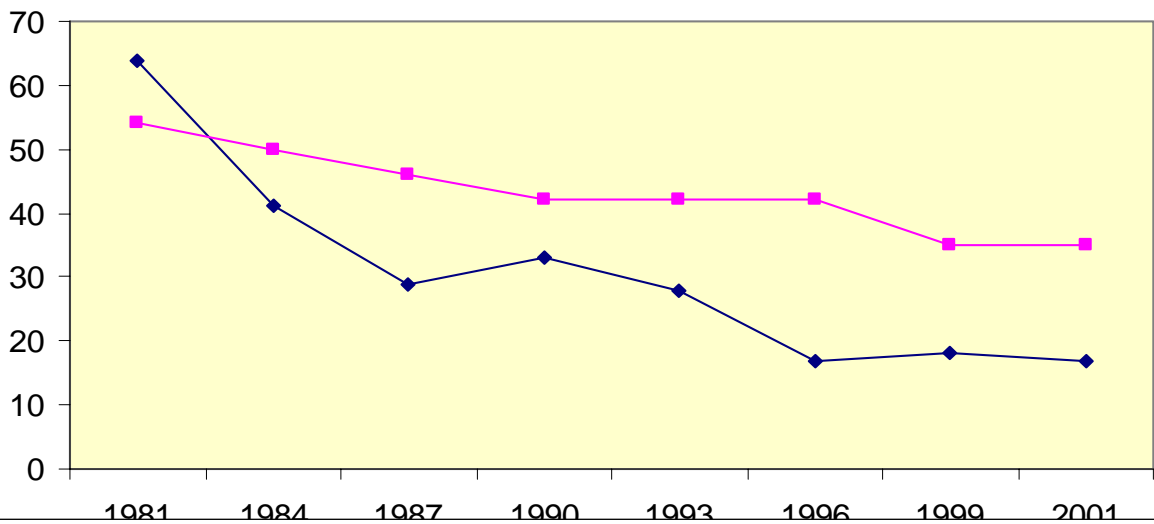
Regional per capita income as a percentage of high-income OECD average per capita income

	1981-85	1986-90	1991-95	1996-2000
Sub-Saharan Africa	3.1	2.5	2.1	2.0
South Asia	1.3	1.3	1.4	1.5
Middle East and North Africa	9.0	7.3	7.1	6.8
Latin America and Caribbean	16.0	14.2	13.5	13.3
East Asia and Pacific	1.7	1.9	2.5	3.1

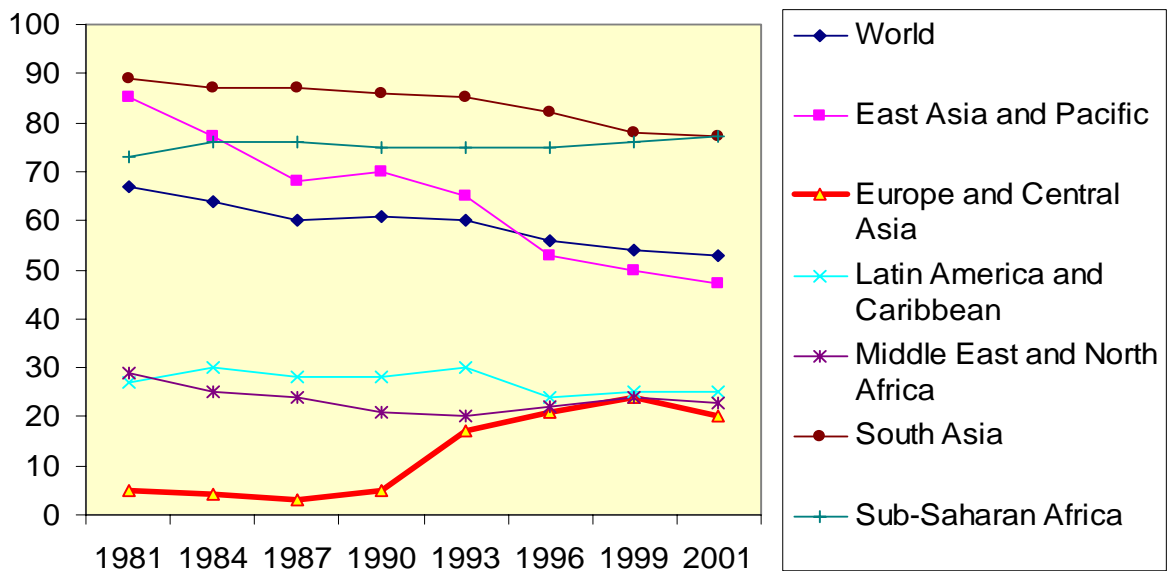
Poverty rates by region (per cent living below \$1 per day)



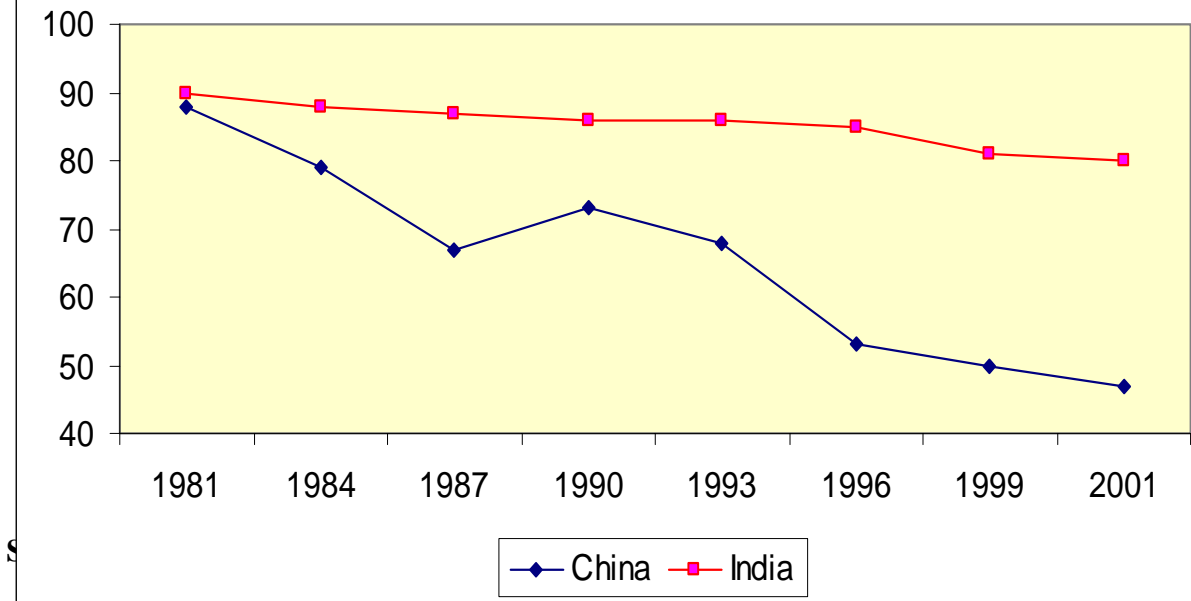
**Poverty rates in China and India
(per cent living on less than \$1 per day)**



**Per cent of people living on less than \$2 per day,
by region**

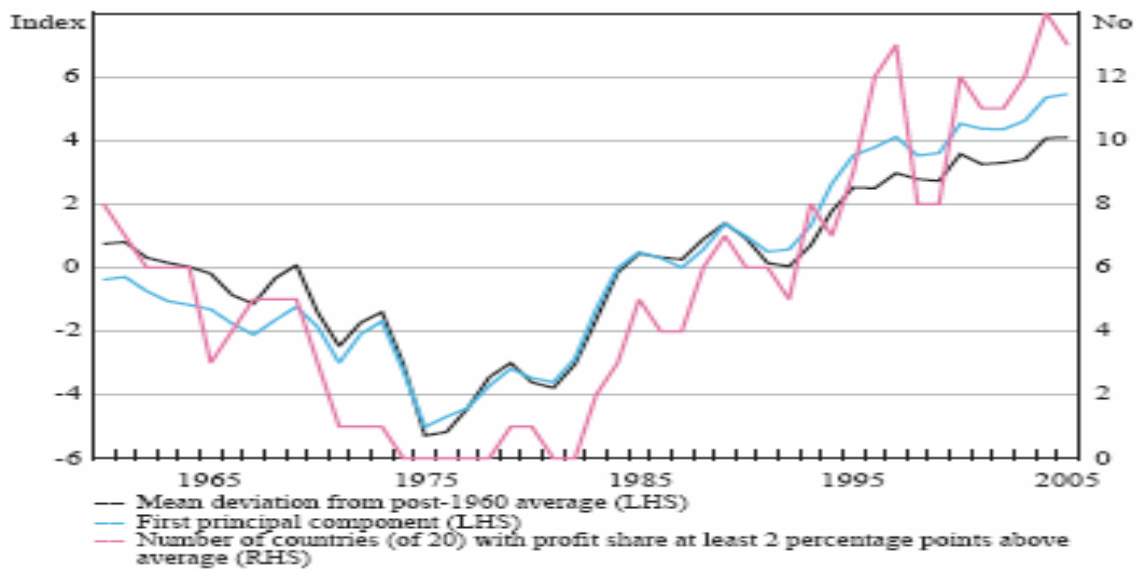


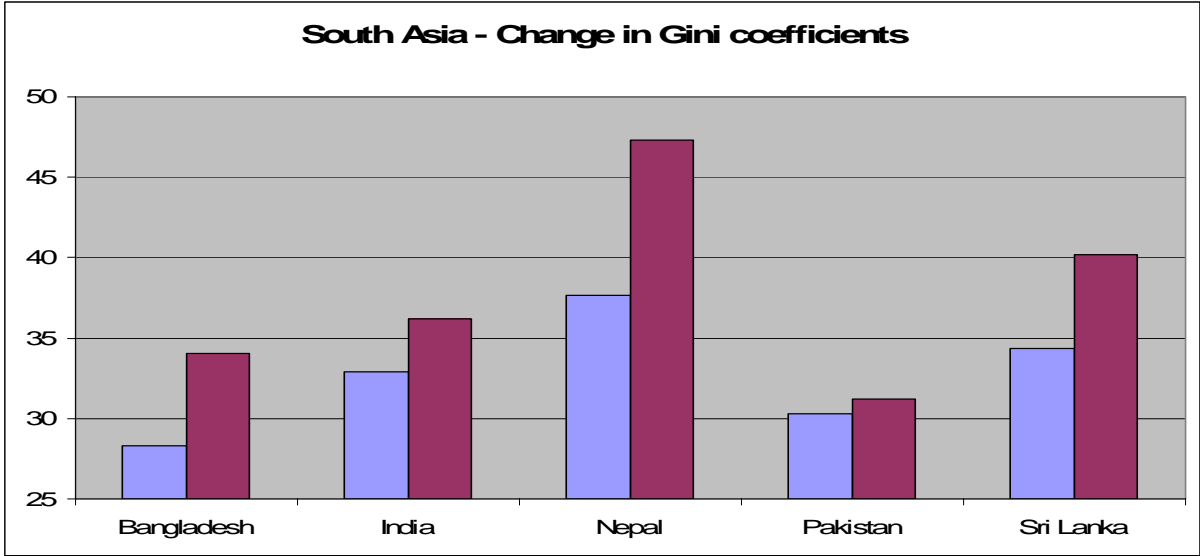
Per cent of people living on less than \$2 per day in China and India



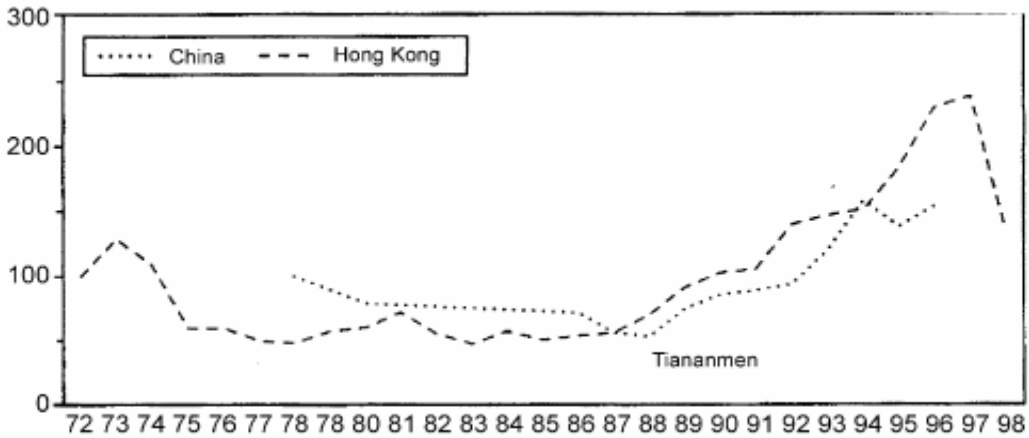
Economy-wide profit shares

Various measures of the common trend; annual data





Wage inequality in China and Hong Kong



Causes: Employment

- Loss of traditional livelihoods, especially related to trade liberalization
- Agrarian crisis and problems of financial viability of cultivation
- Inadequate or poor quality employment generation in dynamic sectors (related to changed technological patterns)

In India total employment in the IT sector(hardware and software) is 1.2 million people while the work force of India is 500 million. Also more technology intensive rather than labour intensive methods of production are used.

Causes: Access to resources and services

- Intensified pressure on natural resources and the environment (pollution, degradation and over-extraction) disproportionately affecting the poor
- Commercialization of previously non-marketed and unpriced goods and services. I see ubiquitous bottles of water here just as everywhere I go. Everything is marketed from water to IPRs
- Reduced access to publicly provided nutrition, health, sanitation and education

Macroeconomic policies associated with these trends – 1

- Export orientation in an increasingly competitive external environment. Countries vying for foreign capital so labour laws are flouted and environment undergoes degradation.
- Trade liberalization leading to loss of traditional livelihoods, more labour-saving techniques in new production and more pressure upon natural resources
- Constraints upon fiscal and monetary policies to promote more economic activity and employment
- External financial liberalization and associated capital mobility leading to increased bargaining power of capital
- Internal financial liberalization leading to reduction in credit access for small enterprises, agriculture and developmental activities
- Reduction of active state intervention in provision of social services and utilities, along with inadequate or faulty regulatory practices

What is to be done? – 1

- Allow more **flexibility** in macroeconomic, industrial and external policies, rather than rigid rules for all situations.
- Make **good-quality employment** generation a central macroeconomic goal.
- Bring back the **provision of basic needs** as an important responsibility of governments.
- Direct policy attention to the more equitable distribution of assets, including land, but also water and other natural resources.
- Ensure that domestic and foreign **resources** are used to further the development project.
- Use **social policy** as a means of furthering developing, generating more employment and creating more equitable and democratic societies.
- Factor in **environmental costs** and pressure on natural resources in all social cost-benefit analyses of development.