

A Survey of the Poor in Asia II*

— The Case of South Asia and Central Asia —

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Abstracts

This paper is the second part of the series on poverty study in Asian countries. The author discusses the various measures conducted and implemented to reduce poverty in different countries

Keywords : Poverty Incidence, Gini Coefficient
Poverty Reduction Linkage

I. Poverty Reduction Linkages for Southeast Asia

An Overview

1. Out of ten countries in this subregion of Southeast Asia, three countries, Cambodia, Lao People's Democratic Republic and Myanmar, are the least developed countries and, again, three countries, Vietnam, Lao People's Democratic Republic and Cambodia, are economies in transition from centrally planned to market regimes. While Brunei Darussalam has the population of only less than two hundred thousand, Indonesia is populated with more than two

* Two Background Papers for the Regional State of Progress Report are combined into one presentation.

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hundred million. All of three major world religions, Islam, Buddhism and Christianity, have all stongly rooted in this subregion.

2. Except Thailand, strong colonial economic legacies had once, one way or another, prevailed and also extensively affected the economies in this subregion. Trial and error processes of establishing one's national identities after decolonialization at the end of World War II and thereafter in this subregion had generated a wide spectrum of economic systems and, accordingly, diverse pictures of poverty situation. Singapore and Malaysia are two exceptional countries, which were successful to improve poverty substantially, and in nation-wide, at relatively early stages of their economic development, respectively.

3. Because of deep-rooted geographical disparity in industrialization and income distribution, Thailand, even after tremendous economic development and industrialization, could not realize substantial nation-wide poverty reduction at the same tempo with economic development. Still a large gap exists between opulent urban sectors and underprivileged poor rural sectors. A similar situation is also found, with somewhat different degrees of intensity, in Indonesia, Malaysia and Philippines.

4. Because of civil conflicts and wars in Indochina and subsequent transitions from centrally planned to market economies, economic growth has extremely been decelerated and income distribution never improved except Vietnam. There are still more than one third of respective populations living under either national poverty line or one dollar a day poverty line in Cambodia, Lao People's Democratic Republic and Myanmar. The fact that no implementable and concrete poverty reduction strategies have ever realistically been designed and launched makes it more difficult to predict any degree of poverty reduction in a foreseeable future in some of these countries.

5. Open and liberalized market economies of Indonesia, Malaysia, Philippines and Thailand, have mostly suffered from the Asian economic crisis of 1997~1999, which also indirectly affected other economies in the region as well. However, the impact of the crisis was most severely inflicted on the poor in terms of lowering income, highly inflationary cost of living and worsening of income distribution in these countries. The crisis also reduced income growth rates during this period, sometimes bringing the rates even to negative figures, and resulted in increased poverty incidence in most of these countries with simultaneously deteriorating income distribution. The poverty reduction trend successfully achieved during the pre-crisis period in these countries was distinctively reversed during the crisis period. The indirect impact was also perceived in some of other countries in the region (Yun and Hill, 2001). In particular, the situation was more seriously impacted in Indonesia than other subregional countries (Levinsohn, Steven and Friedman, 2001; Suryahadi and Sumarto, 2001).

Initial Conditions

6. Dutch, French, British, American and later Japanese colonial rules had ubiquitously left still indelible prints on the path of social, economic and political heritages in the subregion. Independence was obtained either by fighting against colonial rulers or by being granted by them. Even though the economic ties between the two former rulers and ruled countries has gradually weakened, there has always been mutual efforts to maintain economic cooperations, which vitalized the economic development in these countries at least in the early initial stage. Most of the countries in this subregion had enjoyed far greater per capita national income and consumption than Northeast Asian countries except Japan. Even though there is no statistics available, it is not difficult to conjecture that poverty

incidences in these countries were also lower than Korea and China initially during the post war period of 1950's~1970's.

7. Contrasting distinctively to the situation in the Northeast Asian subregion, no country in Southeast Asian subregion has undertaken a full-scale land reform except Vietnam, which experienced a revolutionary change by establishing a socialist regime not only in political but also in economic system. As it is frequently observed, the initial income distribution in this subregion was substantially more unequal in terms of Gini coefficient than most of countries in the Northeast Asian subregion. Again, it is not difficult to conjecture that the wealth distribution would show a similar picture particularly in terms of land and other real estate holdings.

8. Human capital formation, one of the most important factors that positively contributes to economic growth and eventually to poverty reduction, was not strong enough initially in this subregion. In terms of the net enrolment of primary education, some of the countries in the subregion showed substantially lower level of human capital formation than the average. In particular, the countries which suffered internal conflicts during the transition subsequent period of political and social instability had exhibited a sharper and far more salient pictures in this regards. Illiteracy rates were also higher than the average without exception in these countries.

9. Indonesia, even though smaller than China in terms of population and other economic magnitudes, has been suffering from a similar difficulty with China, but with a higher degree of geographical heterogeneity. While the geographical heterogeneity in China is contained in the one continuous continent, Indonesia heterogeneity is scattered all over the nation among the myriad of large and small islands. Regional disparity, which could not easily be erased due to

this sort of geographical heterogeneity has always posed as severely irremediable hindrances in poverty reduction. Furthermore, even a large input of resources in terms of social overhead capital formation would be least effective. This situation was more or less the same with the Philippines, where the national territory covers an archipelago.

10. The subregion was, however, richly endowed with natural resources and clement climate, which allowed high crop yielding in agricultural sectors, abundant timber production in forestry and easy culturing in fishery. Food was always self-sufficient unless man-made disasters were introduced in one way or another by inefficient management, civil wars, etc. Extreme poverty in terms of hunger and starvation was not observed as often found in other subregions, where natural environment is harsher and resource endowment is far more scarce.

11. Even though some degree of gender disparity has always persistently existed in the region of Asia and the Pacific, this subregion was in a sense blessed in that the gender disparity was not as serious and forbidding as in other subregions, where tradition basically denied substantial human rights for women. This is evidenced by the fact that maternal death rate was far lower than other subregions except Northeast Asian subregion. Again, the higher enrolment ratio of girls at primary schools in this subregion than other except Northeast Asian subregion is also another evidence that the gender disparity in this subregion was not as serious as other subregions.

12. Except few countries, which suffered from wars and internal conflicts, child mortality in this subregion was initially lower than most of other subregions in Asia and the Pacific region. This is closely

linked with sound human capital formation and high labour productivity in the forthcoming period when children eventually grow up to participate in the labour forces of the nations. High child mortality ratio in a initial stage not only indicates lack of basic sanitation and health, but also incapacity to strengthen labour productivity in later stages.

13. As it is observed in some of the countries in the subregion, no full-fledged land reform has ever been undertaken except socialist-regime countries. Without achieving land redistribution, most of countries in the subregion have inherited various types of pseudo-feudalistic systems in agricultural sectors, which have played the most important role of economic and social foundation in the country. In particular, the mere fact that overwhelmingly dominating landlords still ruled in local areas, being usually minimally influenced by the central government policies, sustained routine operations of local farm sectors as a closed and isolated entity. This type of hard-core decentralized units of farm operation at an initial stage diluted the effectiveness of poverty reduction strategies of central government.

14. Furthermore, when this type of "local dynasty" was linked to ruling political parties in one way or another, the impact was devastating for poverty reduction strategies and could not easily be alleviated. In some of the countries in the subregion, a number of cases were found in which "feudalistic" localization had still been maintained until recent period. Political thuggery and cronyism in association with localized feudalism had created a strong inertia in decelerating the effectiveness of poverty reduction strategies in many facets at least in initial stages.

15. As in the Northeast Asian and other subregion, the provinces

geographically located in landlocked areas were initially less benefited from poverty reduction policies than other areas. The regional disparity often found in the subregion initially could partially be explained by landlockedness, natural calamity, inclement climate, barren geographical terrain, etc. Geographical characteristics and peculiarity always constitute important initial conditions in explaining poverty reduction processes of the region.

Growth and Inequality

16. The growth rates of GDP up to 1996 in this subregion had been impressive almost reaching 10 percent per annum in some cases. Because of the so-call "Asian Crisis", which began to disrupt developing East Asian economy from the mid-1997, the growth recorded in most cases negative rates in 1998 except centrally planned economies. Even Singapore recorded a zero growth rate. The impact of the Asian Crisis lasted mostly until 1999, and Indonesia, which happens to be the biggest country in this subregion in terms of population, was hit most severely by the crisis. The average growth rate of GDP in 1996 which marked 7.5 percent in this subregion plummeted down to 4.1 percent in 1997 and -7.9 percent in 1998.

17. The so-called "East Asian Tigers", three of which belong to this subregion, were all severely affected by the crisis in terms of reversing both GDI growth trend and poverty reduction, since the crisis inflicted the hardest hit on the marginal labouring classes in the countries. In all of the countries, except centrally planned closed economies, the poverty incidence in any measure increased during this period of the crisis, as it is hypothesized that inflation led by devalued national currency affects negatively the fixed wage earners of marginal class, and that depression led by drastically reduced economic activities again generates unemployment of marginal labourers.

18. Both the size-income and regional income distributions were extremely skewed in the subregion, when contrasted to the situation in other subregions. In 1990 and early 1990's, the Gini reached almost 0.5 in countries like Thailand, Malaysia, and Philippines, while it was lightly less in the centrally planned economies such as Vietnam, Lao People's Democratic Republic, and Cambodia. Inequality in income distribution in the subregion may be attributed to the fact that relative share of agricultural sector in the economies was big, in which case extensive transactions could have been made in kind and not captured in value-added terms, particularly in the traditional rural areas where the extent of marketization was negligible compared to urban sector. Income distribution after adjustment of the differences of cost of living between rural and urban sectors would also produce far more equal pictures. However, it is undoubtful that regional disparity clearly existed in the subregion and, in some countries, still exists.

19. Because of the Asian Crisis, income distribution in the subregion, which temporarily showed an improving picture up to 1997, either settled at the old level or reversed. While Indonesia, Malaysia and Thailand reduced inequality in income distribution slightly, Philippines and other transition economies experienced worsening trend at the end of 1990's, perhaps because of delayed recovery from the Asian Crisis.

20. A simple statistical analysis covering Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Philippines, Thailand and Vietnam for the period of ten years 1990~1999 significantly supports the hypothesis that growth and income distribution are two important variables in determining the changes in poverty incidence. It is found out that continuous one percent change in annual average per capita GDP growth rates reduces more than 8.5 percent of poverty incidence

in a period of 10 years, while the reduction of one percent point of Gini coefficient also reduce almost 3.2 percent of poverty incidence.¹⁾

21. It is immediately clear from the above statistical analysis that if Gini coefficient deteriorates more than 2.7 percent point and per capita GDP grows less than one percent, the growth cannot be pro-poor, and the poverty incidence increases. Pro-poor growth should always be accompanied by improved income distribution. In every country in the subregion, even after experiencing directly or indirectly the Asian Crisis, pro-poor growth was observed during the last decades of 1990's.

22. A further analysis of variance shows that the changes in poverty incidence in the subregion during the period of 1990~1999 can be explained by income growth in the order of 47.72 percent, and by income distribution with given income growth in 35.83 percent. The remaining 18.45 percent may be explained by other factors than income growth and changes in income distribution in Gini

1)	Country	p	g	d
	Cambodia	-29.6	2.3	0.0
	Indonesia	-70.9	3.0	-1.4
	Lao PDR	-40.6	3.7	6.6
	Malaysia	-100.0	4.7	-8.2
	Philippines	-33.5	0.9	-0.8
	Thailand	-72.0	3.8	-7.4
	Vietnam	-71.1	6.2	-0.6

Sources : ESCAP POV.

$$p = -24.312 - 8.548g + 3.155d$$

$$(-1.937) (-2.577) (2.787)$$

$$r^2 = 0.8155, \quad \bar{r}^2 = 0.7233$$

Where p = change in poverty incidence in percent

g = per capita GDP growth rate in percent

d = change in Gini coefficient in percentage point

r^2 = square of correlation coefficient

$\bar{r}^2 = r^2$ adjusted by degrees of freedom

() = the Student t -statistic for the estimated coefficients

coefficient.²⁾ In another words, the total effect on the changes in poverty incidence in case of the subregion during the same period may be divided into income growth effect 47.72 percent, income distribution effect with the given income growth effect 35.83 percent and other effect 18.45 percent.

23. Again, it is statistically tested that economic growth with improving income distribution is a necessary condition for poverty reduction with given socio-economic conditions in the subregion, as witnessed in other subregions. How rapidly poverty reduction would be accomplished would also depend upon speed of economic growth and given initial conditions. If given initial conditions were unfavourable for the poor, a large investment in order to address the unfavourable initial conditions is needed, and inevitably efficiency would hardly be expected in poverty reduction. Furthermore, the early stage of poverty reduction could easily accomplish targeted goals, while marginal diminishing return would work in such a fashion that the latter stage poverty reduction would usually be slower and less efficient, and hard-core poverty always remains.

24. It is important to note that income growth and improving income distribution were two most important factors that contributed to poverty reduction in terms of lessening poverty incidence in the subregion, as witnessed in other subregions in Asia and the Pacific.

2) The analysis of variance table is given as :

Source of Variation (A)	Sum of Squares (B)	Degree of Freedom (C)	B/C
P	Total Sum of Squares = 3987.77	6	664.63
G and d	Explained Sum of Squares = 3251.99	2	1626.00
G	Explained Sum of Squares(1) = 1823.24	1	1823.24
D	Explained Sum of Squares (2) = 1428.75	1	1428.75
Residuals	Unexplained Sum of Squares = 735.73	4	183.93

Poverty Reduction Linkage in Southeast Asia

25. In order to achieve economic growth, both human capital and fixed physical capital formations are absolutely necessary. In particular, the role of manufacturing industry sector is extremely important in pushing up economic activities and eventually growth. As it is observed, the three Least Developed Countries in the subregion, namely, Cambodia, Lao People's Democratic Republic and Myanmar, are still dominated by agricultural sector, the share of agricultural sector in GDP being 32.0 percent, 51.3 percent and 47.9 percent (1980) in 2001, respectively (*Asian Development Outlook 2002*, p. 208). In most of countries, the traditional agriculture has repeated the same process of simple reproduction over time and, therefore, the sector has not been able to positively contribute income growth and economic development. This fact is again evidenced by chronic low growth rates of value added in agricultural sectors in these LDC's.

26. Fixed physical capital formation is not an exception. The lowest records were also observed in these countries in terms of gross domestic investment in most recent six years, showing that the share of gross domestic investment in GDP is in vicinity of 20 percent level. A prototype vicious circle of poverty is found in this manifestations of economic activities. A large agricultural sector, high population growth, low economic growth, no room for domestic savings and investment, and again poverty have formed a sequence, in which a poverty trap has to inevitably remain unerased.

27. Because of the internal conflicts and subsequent socio-political instability during the three decades in the end of the last century in Cambodia and Lao People's Republic, poverty, particularly in rural sector, has been a ubiquitous phenomenon. Distorted population

structure in which females and children are unproportionally dominant has become one of the main hindrances of growth in these countries. The omnipresent landmines, even in the aftermath of the war, caused substantial proportion of disabilities and has lowered labour productivity in these countries. Deep-rooted corruption and non-transparent governance were also main causes of poverty and obstacles to growth.

28. The fact that poverty is closely linked to non-income factors such as high child mortality, short expected life at birth, lack of access to clean water, low schooling level, illiteracy, opium addiction, unexploded ordnance contamination, corruption, etc. is again meaningfully proved in these three least developed countries. Every statistical indicator pinpoints the very existence of these aspects of the economies. Elimination of these factors in most case requires economic resources and, therefore, it is also clear that economic growth with good management and governance is absolutely necessary in order to realize substantial poverty reduction.

29. Even though poverty reduction strategies had not materialized substantially to alleviate poverty due to unfavourable initial conditions and negative socio-political factors, the least developed countries in this subregion have initiated to establish well-defined social and economic development laws with assistance from international organizations, under which many positive signs indicating some degree of poverty eradication have started to manifest. Myanmar, basically an agriculture-dominated economy, has implemented the measures covering (a) better transportation in the rural areas, (b) water supply in the rural areas, (c) improvement of education in the rural areas, (d) promotion of health services in the rural areas, and finally (e) comprehensive rural economic development.³⁾

30. Cambodia and Lao People's Democratic Republic both adopted the Five-year Socio-economic Development Plan 2001~2005, which, respectively, attempts (a) long term sustainable growth, (b) equitable distribution and (c) sustainable management and utilization of environment and natural resources in case of Cambodia, and (a) drastic reduction of poverty and (b) and opium free country by 2005 in case of Lao People's Democratic Republic. In order to achieve the targeted goals, both governments and international organization should extend great efforts. In additions, Lao People's Democratic Republic supplemented the Five-year Socio-economic Development Plan with the Mid-term Expenditure Framework (2000~2003) and the Public Investment Plan (2001~2003).⁴⁾

31. Malaysia, Thailand and Vietnam were successful in reducing poverty incidence at least until the Asian Crisis affected these economies. Malaysia, ever since adopting the so-called "Look East Policy" in 1981, successfully and extensively realized a large influx of foreign capital, which positively contributed to the growth and industrialization of the Malaysian economy. The policy also substantially contributed to realizing more egalitarian income and wealth distribution in Malaysia. The rapid economic growth with foreign capital investment and fairer income and wealth distribution definitely resulted in extensive poverty eradication in Malaysia, and made Malaysia almost poverty free.

32. Despite the fact that the Philippines is composed with numerous scattered islands and that there has been an incessant

3) *Poverty Alleviation in Myanmar*, Statement Delivered by Myanmar Delegates at the 58th ESCAP Commission Session, on 17 May 2002 in Bangkok.

4) Royal Government of Cambodia, *Interim Poverty Reduction Strategy Paper*, Phnom Penh, October 2000, Royal Government of Cambodia, Ministry of Planning *PRSP Preparation Status Report*, December 2001, and The Government of the Lao People's Democratic Republic, *Interim Poverty Reduction Strategy Paper*, March 2001.

internal conflict in a certain limited locale, the Philippines has exhibited a rather successful picture of poverty reduction. The economic growth in Philippines during the ten years of 1990's did not show impressive rates primarily because of the Asian Crisis and Nino-led drought. However, the poverty incidence dropped from 41.5 percent in 1986 to 25.0 percent in 1997, the reduction of 16.5 percent point being attributed to growth by -20.5 percent point and to income redistribution by 4.0 point, according to a study of the Filipino academic circle (Balisican and Pernia, 2002).

33. A further analysis shows that the change in poverty incidence in response to income growth, measured in terms of income elasticity, is in the range of 0.6~0.7, which indicates that the change in poverty incidence is lower than the change in income growth, mainly due to the fact that the income distribution during the period of analysis was deteriorated from 45.0 to 46.2 in Gini coefficient. This fact is also consistent with the above findings that the reduction of poverty incidence of -16.5 percent was achieved by income growth positively and hampered by worsening distribution negatively.

34. Initial conditions also mattered in the Philippines. The high enrolment and schooling ratios and the closeness to and association with the ruling political party positively contributed to reduction of poverty incidence, whereas land-lockedness, natural inclemency such as typhoon disaster and "feudalness" of local "dynasty" have been detrimental to it. In addition to income growth and distribution, betterment of terms of trade with other provinces and urban centres, electrification, agrarian land rearrangement, and new construction and improvement of land also substantially and positively influenced reduction of poverty incidence. This sort of studies could safely be replicated in analyzing the poverty situation in Indonesia, in a sense that the geographical situations are more or less similar to each other.

35. Even though Indonesia was one of the most hardly hit countries by the Asian Crisis, Indonesia's performance in reducing poverty incidence has been successful. Since Indonesia is a large country known with its diversity and geographical heterogeneity, any uniform criterion to be used as a yardstick would be misleading in explaining the socio-economic situation in Indonesia. However, using one dollar a day line, the poverty incidence dropped from 20.6 percent in 1990 to 6 percent in 2000 even after undergoing the hardship caused by the Asian Crisis. During the period of the Asian Crisis, the poverty incidence rose until the early 1999 and gradually declined from then on.

36. The Asian Crisis, according to a recent study (Levinsohn, Steven and Friedman, 2001), particularly affected the price level of commodity basket of the poor in such a fashion that the poor was most hardly hit by the crisis. The usual hypothesis, which argues that increase in import prices led by devalued local currency would primarily affect the well-to-do class and that the non-trade goods, which the poor consumes, would not be affected, is not supported in the case of Indonesian study. When the degree of trade dependence is high, the Marshall-Lerner condition may work against the poor primarily due to the fact that the commodity basket of the poor reveals rigid price elasticity of demand.

37. As in some of other countries in the subregion, Indonesia experienced a dynamic nature of poverty mobility. Before and after the Asian Crisis, it has been observed that along with the chronic hard core poor, a large fraction of the transient poor, vulnerable to changing economic condition, also moved into and out of the poverty class of the population in Indonesia. This indicates that a large proportion of the marginally poor reveals high mobility in poverty

reduction or in poverty increase in Indonesia, depending upon newly developing economic changes home and abroad (Suryahadi and Sumarto, 2001).

38. Based on the past experiences of implementing poverty reduction strategies, Indonesia needs good governance at both local and national levels with decentralized decision-making and management, maintaining sustainable growth with elimination of corruption and excessive regulations, investment in education and health, improving in infrastructure that benefit the poor, and improving income distribution. Empowering the poor to participate in the process of decision-making for poverty reduction should also be realized with decentralized management and decision-making. Recent experience also gives a lesson that ability to manage and absorb economic shocks is very important in reducing or at least not increasing poverty during an economic crisis.

39. Extrapolating the past trend of poverty reduction in Indonesia, it is forecasted that if income distribution in Gini decreases at the rate of one percent point per annum, a mere two percent growth of income per annum would reduce the poverty incidence of 27.1 percent in 1999 based on the national poverty line to 2.4 percent in 2004. The Gini in 1999 was estimated 31.7 percent. If income growth is realized at 5 percent per annum with the same decreasing tempo of the Gini, the 1999 poverty incidence of 27.1 percent would be reduced to 5.7 percent in 2004, about one fifth of the 1999. Again this tells us that income distribution plays an utmost important role in poverty reduction in Indonesia, too (Sumarto, 2002).

40. Despite the serious efforts of the Royal Thai Government to eradicate poverty in Thailand, the poverty incidence in 1996, which marked 11.4 percent based on the National Poverty Line,

approximately 6.8 million people, increased to 15 percent in 2000, after experiencing the Asian Crisis. The situation was worse in the rural sector, the poverty incidence reaching 21.5 percent after the crisis. Furthermore, the income distribution was also deteriorated during the period of the Asian Crisis (National Economic and Social Development Board, 2002). However, based on the poverty line of one dollar a day per capita, which is lower than the National Poverty Line of Thailand in terms of 1985 ppp, the picture looks far brighter. The poverty incidence of 12.5 percent in 1990 dropped drastically to 3.5 percent in 2000, even after the Asian Crisis.

41. Poverty reduction is at present the first priority for the Royal Thai Government, government agencies, and public and social groups. Wide disparity in regional income distribution and incorrigible poverty situation in certain areas, particularly during the period of the Asian Crisis, perhaps dictated the Royal Thai Government to reconsider its policies toward poverty reduction in terms of addressing structural issues such as resource allocation, legal systems and taxation for the benefits of the poor and for betterment of income distribution. And in order to establish a holistic approach among related government agencies in achieving poverty reduction, a consolidated body was newly created with a close coordination with international organizations. With a strong attempt to formulate a nation-wide poverty mapping, the Royal Thai Government emphasized community empowerment and economic development at grass-root level by launching the five main programmes of debt suspension for farmers, establishment of people banks, establishment of village funds, one tambon (village) one product project, and universal health insurance project.

42. Even though it has been undoubtedly corroborated that the success of poverty reduction in Thailand during the past years can be

derived primarily from sustained high economic growth, generating high income from non-agricultural sector, nation wide extension of education, health and other public services, and appropriate population policies,⁵⁾ it is also declared necessary for future success that good governance, "sufficient economy" philosophy based on self-reliance spirit, improvement of investment environment and people's participation should strongly be promoted by both the government and civil societies.

43. With an introduction of full-scale economic reform in Vietnam and establishing a market economy under state regulation, the economy of Vietnam during the past decade has undergone a tremendous change. The reform which led a drastic change in agricultural sector not only resulted in food self-sufficiency in Vietnam but also made Vietnam one of the most important food exporting countries in the subregion by raising agricultural productivity and restructuring agricultural system. The establishment of market economy in Vietnam has also realized a sustained high economic growth, the annual average rate of GDP reaching 7.5 percent and the per capita annual average rate 6.2 percent. The high growth rate has been achieved through formation of sound environment for both domestic and foreign investment, which in turn has positively contributed to drastic reduction of poverty incidence from 50.8 percent in 1990 to 9.1 percent in 2000. The poverty incidence in Vietnam shows a slightly different figures, when it is based on the National

5) There is a view that even though poverty reduction in Thailand was attributed high economic growth, the Thai economic growth has not been pro-poor growth in the sense that the growth could not fully be linked to poverty reduction due to income distribution. See Nanak Kakwani, "Pro-poor Growth: With Application to Korea and Thailand," a paper presented at the regional workshop on poverty analysis and monitoring organized jointly by the Pakistan Institute of Developing Economics and the World Bank Institute, 18~23 March 2002 at Islamabad, Pakistan.

Poverty Line of Vietnam. However, the distinctively reducing trend is clearly visible disregarding any base is used (Socialist Republic of Vietnam, 2001).

44. With the introduction of market economy, income distribution, as expected, has not shown a substantial change. Gini in 1992, which was 36.7, has only dropped to 36.1 in 1998. Different from the allocation system under a socialist regime, market activities play an important role in determining income distribution, and it is expected that usually income distribution is the deteriorated or kept the same after an introduction of market economy, as it is experienced in transient economies. In particular, Vietnam also suffered indirectly from the Asian Crisis in the late 1990's without except and experienced lower economic growth rates.

45. Because of geographical diversity in regional income generation in Vietnam, the highest poverty incidences are found in North and Central Highlands Region. One of the most successful poverty reduction measures in Vietnam was the so called Participating Poverty Assessments, which targeted the poorest communes in eradicating poverty with assistances from international communities (Turk, 2001). The National Target Programme on Hunger Eradication and Poverty Reduction for the 1998~2000 Period focused mainly on the poor communes with specific nine components of (1) infrastructure development support for poor communes; (2) support for especially disadvantaged ethnic groups; (3) sedentarization and fixed cultivation and support to move people to new economic zone; (4) guidance to teach the poor business skill; (5) credit support for the poor; (6) health care programme for the poor; (7) education programme for the poor; (8) support to develop and expand industries and trades in poor communes; and (9) training for poverty reduction workers and local government staff in poor communes.

46. Sound macroeconomic policy implementation to support economic stabilization and growth with the government's strong intention and participatory private sectors in the process of poverty reduction are utmost important factors that decide successfulness of achieving a nation without hunger and poverty. The lessons of the subregion of the Southeast Asia strongly suggest that judicious allocation of limited domestic resources and promotion of foreign investment in an encouraging environment is absolutely necessary in poverty reduction. Without good governance and accountability, this process would hardly be materialized. In general, except few countries devastated by wars and internal conflicts, most of the countries in the subregion have clearly shown that economic growth, income distribution and other socio-economic variables are all intertwined and linked in the process of poverty eradication.

II . Poverty Reduction Linkages for Central Asia

An Overview

1. All five countries in the Central Asian subregion are landlocked. In the area of slightly more than 4 million square kilometres between China and Russia, approximately 56.1 million people are living with population density of 14 persons per square kilometre, one of the most sparsely populated areas in the Asian and the Pacific region. Strong Islamic culture has laid a basic foundation of society in all of the five countries, even though the tradition officially discontinued during the Soviet era.

2. Even though none of these five countries are included in the category of the least developed country, LDC, their welfare levels are currently lowest after collapse of the Soviet system. The per capita

GDP levels are hovering from USD 1200 in case of Kazakhstan to USD 170 in Tajikistan in 2000 (Linn, 2002).

3. The recent situation in the Central Asian subregion is often described by a "triple-transition"; first, "the adjustment to the economic shock of the break-up of the former Soviet Union," second, "the transition from state planning to market-driven economy", and, third, "an ongoing political transition" (Linn, 2002). The so-called "triple-transition" has affected the nations very extensively in every sphere of socio-politico-economic life, and eventually brought down drastically welfare level and quality of life in all of the countries in the subregion.

4. The impact of break-up from the Soviet Union in the Central Asian countries has been the heaviest compared with the republics which formed the Union primarily because of the geographical fact that these countries are landlocked. Unless necessary materials are air-transported, all the entries to and exits from these countries should be made by land, and numerous checkpoints in between either domestic or abroad have exploited bribes. The cost has to be enormously enhanced by this vicious practice after the break-up from the Union.

5. In the transition process, the five Central Asian Republics without an exception experienced severe lack of administrative skill, absence of technocrats, weakened ability to organize new governments, and disintegration of local government networks. Tajikistan even encountered an internal conflict, which devastated meagre heritages of the Soviet Union, and further deterred the transition and economic recovery.

6. Division of labour and industrial specialization under the union

wide consolidated system during the Soviet era could not be efficiently reorganized in each of the republics after the break-up from the Soviet Union, and eventual disequilibria and unbalancing in demand for and supply of strategic materials caused extreme chaos in real sector of economy and consequently massive unemployment.

7. Furthermore, discontinuation of so-called "friendly" prices, nominally charged among the socialist countries in their trade under the Soviet and CONECON systems accelerated even more rapidly the deterioration of material mobilization networks in the subregion. While some items were excessively supplied, other important items extremely lacked. Because of this imbalance, industrial capacity everywhere was substantially underutilized.

8. Because of the lack of integrated coordination among the republics in the subregion some countries experienced inadequate access to secure water and energy sources. In consequence, environment was extensively degraded and destroyed. Particularly international rivers in the subregion were extremely inefficiently managed, and the conditions of the Aral Sea were fundamentally deteriorated.

9. Transition from centrally planned regimes to market economy was also very costly in terms of macroeconomic instability. With declining tax revenue and increasing social expenses deficit financing was inevitable and therefore excess money supply without being accompanied by production growth caused chronic hyperinflation in the early period of transition. Every country in the subregion without an exception experienced two to three digits inflation in 1990's.

10. This situation was further exacerbated by absence of market institution and lack of capacity building. Financial sector restructuring

was a very slow process, and as a consequence privatisation could not be promptly materialized. Outdated banking operations also became a hindrance in mobilizing domestic resources, and lack of proper market institutions discouraged inflow of foreign capital.

11. Democratization process was also very slow, and lack of democratic institutions prevented mass participation in the transition process. In some cases, the old communist party hierarchy was adopted intact by government without revising much, and a strong image of dictatorial regime was still lingering in almost everywhere in the system. Socialistic bureaucracy and red-tapes still remained in government administration. External cooperation with neighbouring countries in the subregion also lacked in terms of both economic and political affairs.

Initial Conditions

12. The five Central Asian Republics had initially been the poorest states in USSR even during the Soviet regime period. This is perhaps primarily due to the fact that the five republics, even though their sizes of population and territories vary widely, are located in remote barren area either surrounded by great mountains like Tieshan and Pamir, or isolated in the middle of desert. Without exception, the republics are also all landlocked and outreaching transportation channels are poorly established and extremely long to the nearest oceans.

13. With the introduction of market economy, the five Central Asian Republics in the subregion were not equipped with virtually any market institution required to operationalize new market regime. Central bank had to be restructured to meet the new roles imposed by market economy, new stock market had to be established to

facilitate stock exchange and privatisation, foreign exchange market had to be even gradually established. In addition, new tax system and laws also needed to be created. In the process of establishing these new market institutions, extreme disorder and informal underground economy had to be indulged in order to support even at minimal level the economic life of ordinary citizens.

14. The process was inevitably a slowly materializing mechanism, since all of these creations and restructuring should occur simultaneously because of their natures. Without having a well-functioning central bank, commercial banks could not be operated and, therefore, expansion of credit and deposit mobilization could not be properly realized, and vice versa. Without having a well-functioning stock market the former state-owned firms could not be precisely evaluated in terms of stock prices and, therefore, privatisation could not be promptly achieved, and vice versa. Fiscal revenue declined due to decreasing tax collections, and without having a systematized tax laws, efficient tax collection would be difficult, while fiscal expenditure requirement continuously increased.

15. To meet the requirements of increasing fiscal expenditure, government had to solely rely on increase in money supply, which would sooner or later contribute to hyperinflation. Because of inflation, money holding either in cash or bank deposit caused loss in real value of financial assets, and this would further discourage commercial banking operation in terms of deposit mobilization. Real wage and real values of pension would decrease, while prices of staple commodities were skyrocketing.

16. The following table shows real per capital GDP for these Central Asian Republics in terms of the purchasing power parity in 1991 and 2000 and growth rate of real per capita GDP during the period of 1999~2000.

Comparison of Per Capita Real GDP in PPP

Country	1991	2000	growth rates
Kazakhstan	4490	5871	-3.1
Kyrgyzstan	3683	2711	-5.1
Tajikistan	2180	1152	-11.8
Turkmenistan	3540	3956	-8.0
Uzbekistan	2740	2441	-2.4

Source : UNDP, HDR (2002).

Kazakhstan and Turkmenistan are only two countries, which show increase in per capita GDP in PPP. However, when real per capita GDP's are used in calculation no country experienced positive growth rate during the period of 1990 and 2000. Since 1990 is the last year these Central Asian Republics were attached to the Soviet Union, every country in the subregion suffered decrease in per capita real GDP even after decade of break-up. The situation was worst in the years of 1996~1997, in which the lowest point in per capita real GDP was experienced and a gradual recovery began thereafter.

17. The situation is also reflected in the so-called "Human Development Index" as shown in the following table.

Human Development Indexes of Central Asian Republics

Country	1991	2000
Kazakhstan	0.774	0.750
Kyrgyzstan	0.685	0.712
Tajikistan	0.629	0.667
Turkmenistan	0.697	0.741
Uzbekistan	0.664	0.727

Source : UNDP, HDR (2002).

Even though all the indices except Kazakhstan increased in 2000, all countries, except Tajikistan, belonged to the group defined Medium

Human Development countries in 1991, whereas in 2000 all countries belonged to the group defined Low Human Development countries. The borderline for Medium Human Development Countries was 0.649 in 1991, while it increased to 0.796 in 2000.

18. Again, it is also possible to conjecture that the situation was worst in the mid-1990's, when the transition was still at its infantile stage, and the level of GDP loss due to negative growth rates was the greatest, reaching 20 to 60 percent level of 1990 in 1996 (Linn, 2002). The economic condition was worse than any great depression in the world history of market economy. With these initial condition, poverty reduction in this subregion cannot be expect very much.

19. Despite the negative aspect of GDP growth and worsening of the human development indices, some of the initial conditions in all of the Central Asian Republics were fairly positively endowed. Life expectancy at birth in these countries were uniformly higher than the surrounding countries ranging from 66 to 70. Again the same is true with adult literacy rates. Every country in the subregion enjoyed a far higher adult literacy rates than any of the surrounding countries like Pakistan, Afghanistan and Iran, ranging at least from 96.7 in Tajikistan and to 99.7 in Turkmenistan in 1991 (Falkingham, 1999).

20. In terms of human capital formation, all of the Central Asian Republics had far higher quality and wider basis in 1991 than any other surrounding country in the vicinity of subregion. The picture was closer to Europe than South and West Asian countries at least in 1991.

Growth and Equality

21. Even though all five Central Asian Republics did not compile national accounts until recently, every economic indicator revealed

that beginning from 1991 after the disintegrations of the Soviet Union both real GDP and per capita real GDP declined at rapid rates as late as 1995 and 1996, and a slow recovery was only found after 1996 and 1997. The levels of both real GDP and per capita GDP in 2000 were still far below the level of 1990. Every other economic welfare indicator shows the same picture in the subregion.

22. Because of rampant hyperinflation and exacerbated production, not only real GDP declined but also real wages and employment drastically declined. the following table shows the macroeconomic instability for the Central Asian Republics for the worst two years. The situation in 1997 was uniformly worse than 1993 all over the Central Asian Republics, except the fact that inflation was more or less subdued as transition progressed. With declining real wages and increasing unemployment the level of economic welfare was acceleratingly worsened in these countries. The trough in 1996/1997 shows the worst picture during the transition process.

Some Macroeconomic Indicators of CAP's in 1993 and 1997

Country	Real GDP (Index 1991 = 100)		Price inflation (% change in end year consumer prices)		Real Wages (Index 1991 = 100)		Registered unemployment	
	1993	1997	1993	1997	1993	1997	1993	1997
Kazakhstan	87	67	2169	11	32.9	34.4	0.6	4.2
Kyrgyzstan	68	64	1363	15	59.4	44.5	0.2	3.2
Tajikistan	63	42	7344	165		5.0	1.2	2.9
Turkmenistan	85	44	9750	22				3.0
Uzbekistan	87	86	885	28			0.3	0.5

Source: EBRD, Transition Report Update (1998), quoted from Falkingham.

23. In addition to declining real GDP, declining real wage rates and increasing unemployment, governments' weakening capacity to

mobilize revenue, as well as incapacity of firms and households to pay tax, aggravated social spending such as pension, social welfare expenditure, education expenses, medical and health services, etc. in the subregion. The level in 1996/1997 plummeted down to 25~70 percent of 1991/1991.

24. Income distribution in the five Central Asian Republics prior to the break-up from Soviet Union in 1989 was worse than that of all USSR in terms of Gini coefficient in 1989, except Kyrgystan (Falkingham, 1999). As it has been witnessed elsewhere in the transitional economies, income distribution was deteriorated in these Central Asian Republics without exception. Growing inequality in income distribution in a typical transitional economy is caused primarily by expansion of private sector, inflation which reduces real wage income, chronically increasing unemployment, lessening transfer income from governments to households and private sector, concentration of privatised wealth in the hands of few, and inefficient adaptation of certain low income group of people to newly emerging market systems.

25. Even though reliable index for measuring inequality of income distribution is poor, it may safely be conjectured that all of the Central Asia Republics experienced worsening income distribution after the break-up. Fragmentary information on inequality of income distribution during the transition period corroborates this worsening trend (Arkinson and Micklewright, 1992).

26. With negative income growth rates and deepening inequality in income distribution, an apparent consequence is drastically increased poverty incidences in the subregion. Even during the Soviet period, almost 60 percent of all of poor population in the Soviet Union was found in the five countries of the subregion. In 1989,

population with monthly per capita income less than 75 roubles in the Central Asian Republics occupied 57.5 percent of the total poor population of the Soviet Union, even though the entire population of these republics only occupied 17 percent of the population of the Soviet Union (Arkinson and Micklewright, 1992).

27. The poverty incidence under 75 roubles line in 1989 was the greatest in Tajikistan, reaching 51.2 percent, followed by Uzbekistan in which poverty incidence reached 43.6 percent, 75 roubles per capita per month were equivalent to USD 4 in ppp, which is far higher than the World Bank line of USD 1 in ppp. The transition exacerbated the poverty situation by adding "new poor" on top of "old poor" in the subregion. The worst case was found in Kyrgyzstan, where the poverty incidence under four-dollars in ppp reached 84 percent in 1993/1994. Without exception, all of the countries in the subregion experienced exacerbation of both poverty and income distribution.

28. Poor households in the subregion were found out to be distinguished from non-poor households by certain characteristics as in other subregions. First, the size of household with more than average number of children was bigger than the average non-poor household. Second, the level of education of the household head was lower with the poor household than non-poor household. A higher correlation was found between the level of education and poverty. Third, because of large amount of wage arrears and numerous cases of unpaid leave in the subregion during the transition, employment did not show any significant correlation with poverty. This aspect is perhaps most unique in the subregion, where employment did not guarantee income, particularly during the transition. Fourth, there was a strong trend that rural population was uniformly more vulnerable to poverty than urban population in the subregion, as it was the case with other subregions. Fifth, the traditional wage gap between

genders during the Soviet Union period was continuously inherited by the Central Asian Republics even after the break-up, and a woman-headed household was more vulnerable to poverty. Probability was always higher with woman-headed households to be included in poor households than male-headed households, and the wage gap was even widened during the transition (Falkingham, 2002).

Poverty Reduction Linkages in the Central Asia

29. As observed, every macroeconomic and social indicator showed a dismal picture as far as poverty reduction is concerned in the subregion. Economic recovery had started from 1996/1997, when more or less the initial stages of transition were completed and civil conflict ended. Initially the poor households of the Central Asian Republics after the collapse of the Soviet Union had to undertake various schemes to maintain a minimum living condition. The typical strategies adopted by the poor households may be classified into four, according to Howell (Howell, 1994; Falkingham, 2002), as follows:

- (a) Reductive Strategies : including reduced consumption, not just of luxuries but also of basic items such as meat, sugar and coal.
- (b) Depleting Strategies : through the sale of assets, particularly livestock in rural areas but also household goods.
- (c) Maintaining Strategies : by borrowing from relatives or friends and raising credit from suppliers or producers.
- (d) Regenerative Strategies : including trade and home production of food and clothing for sale.

30. This type of strategies could only be temporary in nature and could not be lasted in a long-run period of time. By 1997 all of the Central Asian Republics showed positive income growth rates and began to create new jobs. With positive growth rates and creation of

new jobs the economy was basically provided with an initiative in poverty reduction. Once initiative is made, the Central Asian Republics, inherited with high quality of human capital formation and experiences of welfare programmes from the Soviet days, were able to sustain the inertia of growth by newly establishing labour intensive public works, creating micro-finance schemes for newly emerging small and medium enterprises of private sectors, and encouraging market operations particularly with expanding trade with bordering countries.

31. There were some slight differences even among the Central Asia Republics in poverty pictures, perhaps the worst situation being found in Tajikistan, which had experienced an internal conflict until June 1997, when the Peace Agreement was signed. Both of the Poverty Reduction and Growth Facility of the International Monetary Fund and the Structural Adjustment Credit from the World Bank substantially improved macroeconomic situation in Tajikistan and gave an impetus of positive growth, which had been declining ever since 1991. Despite of the fact that some progress was made in Tajikistan, the Republic is still the poorest among the Central Asian Republics.

32. Because of limited and lagging reforms of administrative structure and government institutions, foreign capital investment could not encouraged, and resources for growth had to be heavily relied on domestic mobilization. However, the most imminent measures have to be initiated from agricultural sectors, in which poverty situation is most serious but where the country enjoys comparative advantages in terms of favourable weather conditions and cheap labours. The Tajikistan basically relies on expert-led and labour-intensive growth, targeted poverty-reduction policies for the poor population, and efficient reorganizations of government institutions and judicial systems.

33. In this connection, the Tajikistan government has set the following macroeconomic targets for 2001~2003: (a) increase real GDP growth to at least 5 percent annually, (b) reduce inflation of 7 percent annually and (c) increase official international reserve to three months' requirement of import (Government of the Republic of Tajikistan, 2000).

34. In order to fight again poverty Kyrgyz Republic developed the general development vision in a programme of the so-called "The Comprehensive Development Framework of the Kyrgyz Republic of 2010". The National Strategy of Poverty Reduction is another medium-term programme for implementation of the first phases of the Comprehensive Development Framework. Since the government's continuous emphasis on the poverty reduction in these two documents has given a high priority, the international donors in one way or another participated in the process of promoting foreign investment and private sector entrepreneurship.

35. Substantial achievement was made in facilitating banking sector reforms, reorganizing financial systems, budget-tax adjustments and foreign exchange stabilization. In order to concretise the poverty reduction, the following macroeconomic targets were established: (a) attain annual growth rate of GDP at 4~5 percent, (b) reduce annual inflation rate to 5 percent, (c) achieve a primary fiscal surplus of 3.5 percent of GDP, (d) increase the allocations for social spending in real terms, and (e) increase tax revenue to 15 percent of GDP in the period to 2005 (Kyrgyz Republic, 2001).

36. In addition to the above targets, long-range goals were also established to be achieved in the period to 2010: (a) halving of total poverty, (b) a reduction of infant and child mortality by two-thirds, (c) the introduction of preventive measures to preserve the level of

basic education, (d) the provision of access to a basic package of medical care for individuals of all age groups, and (e) ensuring that the progress made on gender qualities over the past decades are not eroded, particularly as regards education and women's health (Kyrgyz Republic, 2001).

37. Kazakhstan also adopted a similar programme in order to implement poverty reduction strategies. Based on the Decree #305 of the Government of the Republic of Kazakhstan, dated February 28, 2001, an Inter-Agency Commission for Poverty Reduction was created jointly by Ministry of Economy and Trade, Ministry of Labour and Social Protection, Ministry of Finance, and other state bodies. Without exception, the principle involved in the programme is vitalization of market operation and promotion of free enterprises. Even though minimization of state's regulatory intervention in market operation was one of targets, in practice, it could not be kept, primarily due to the fact that Soviet legacy was still remaining in every sphere of social and economic life in the Central Asian Republics. Economic growth with increased employment was the most important target as elsewhere, and provision of basic education and health services were also important goals (Republic of Kazakhstan, 2002).

38. As in the South Pacific subregion, severe lack of statistical data, particularly time-series economic statistic such as national account statistics, does not allow researchers to correctly grasp the picture of poverty situation and progress of new development in poverty reduction in the Central Asia Republics. It is strongly recommended that regular and periodic surveys should be conducted in these republics in order to enable policy-makers, administrators and researchers to establish a strong statistical basis for policy judgement necessary for poverty reduction.

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