POLICY BRIEF

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Mass Poverty in Asia: The Impact of the Global Financial Crisis

What is the problem?

In addition to the current Global Financial Crisis (GFC), there is a second global crisis: long-term mass poverty in the third world. While the rich world worries about a repeat of the Great Depression, today more than a billion people in Asia live in conditions of bitter poverty which are much worse than those of the 1930s. As a result of the GFC, poverty in developing Asia is now likely to increase.

What should be done?

Australian economic diplomacy should do five things. First, emphasise the importance of strong economic growth in Asia. Second, place greater focus on the issue of mass poverty in Asia, both within Australia and internationally, including with a comprehensive annual statement to the Australian Parliament. Third, implement measures to strengthen the voice of Asia's poor. Fourth, increase developing Asian countries' access to global knowledge. Fifth, urge other OECD donors to give priority to tackling mass poverty in Asia.

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One global crisis – or two?[1]

Much attention is currently being paid to what has become known as the GFC – the Global Financial Crisis. But many who work on the economics of international development issues believe that there are *two* major global crises – not just one. There is the GFC, which is a high-profile short- and medium-term financial crisis that broke out in rich countries towards the end of 2007 – but there is *also* the longer-term enduring crisis of mass poverty and widespread unemployment and underemployment in poor countries. This *second* crisis should perhaps be referred to as the Global Economic Crisis because it greatly affects incomes and employment of the majority of people across the planet.[2]

Statistics illustrate the problem. The World Bank has recently issued some new calculations on the extent of poverty in developing countries.[3] Calculations of this sort of thing are fraught with complications. But leaving the details aside, a summary of the implications of the new data is shown in Tables 1 and 2. [All Tables and Figures can be found in the Annexure at the end of this paper.]

The new figures show that there are many more poor people in Asia than previously estimated. In 2005, about 903 million people (27% of the population of 25 countries) were recorded as living in extreme poverty (defined as consuming less than $1.25 per day) – around one-third more than previously estimated.[4] In addition, another 900 million people in the region were estimated to be moderately poor (less than $2.00 per day). Taken together, these figures indicate that in 2005 *more than half of the region's people – around 1.8 billion people – were either extremely poor or were vulnerable to harsh poverty.*

There are three points to note about these figures.

- First, the numbers are very large. Extrapolating to other developing regions of the world, they imply that, at a conservative estimate, at least one-third of the people on the planet are either extremely poor, or are quite vulnerable to extreme poverty.
- Second, large numbers of the poor are in China and India. We need to remember that amidst all the discussion about how the economies of China and India have been doing well, mass poverty will remain a major economic challenge in both of these countries for many decades to come.
- Third, it is clear that the majority of the world's poor live in Asia. This is an important fact which needs to be more clearly understood in global discussions about the challenges of global poverty. There is often a tendency, in North America and particularly in Europe, to see the main global poverty challenge in Africa.

What all of this means is that while the rich world today worries about the potential danger of a repeat of the Great Depression of the 1930s, well over a billion people in Asia have been living in conditions of bitter poverty for decades which are much worse than those of the Great Depression of the 1930s. In order to avoid what the leading Indonesia scholar Herb Feith once called 'First World Bias', it needs to be recognised that *two* global economic crises exist – not just one.

Mass poverty in Asia

When discussing poverty in Asia it is useful to consider the *difference* between poverty in developing countries and poverty in rich countries. In thinking about issues of poverty in developing countries, it is of central importance to understand that the phenomenon of poverty in the developing world is *very different* from the type of poverty usually discussed in rich OECD countries. And because the *type* of poverty is different, the *responses* needed are different as well (Figure 1).

In Western countries, deep and persistent poverty is not a widespread phenomenon. Rather, poverty is generally found in certain segments, or pockets, of society. This type of poverty is usually a localised or segmented phenomenon because it is found in certain groups which can be defined by region, by age, or by social group. In contrast, in many parts of Asia, *mass poverty* is the main economic problem.[5]

One main difference between poverty in rich and poor countries is that the phenomenon of mass poverty across a poor nation affects the society *as a whole*, and not just individuals or small groups. The social externalities of mass poverty have far-reaching effects. Poor societies affected by mass poverty often operate in quite different ways from rich societies where localised poverty is the problem. Examples include the loss of production and the sheer waste which occurs when people are employed in dreadful working conditions, and the damage done by widespread insecurity and weak law.

Since the type of poverty differs greatly between rich and poor countries, so the appropriate responses differ as well. In rich countries, well-targeted anti-poverty interventions are a sensible approach to segmented poverty. Targeted anti-poverty programs in rich countries are generally affordable, and the administrative capacities of agencies implementing these programs are generally reasonably effective. But these conditions rarely apply in developing countries. Mass-based programs rather than targeted responses are the best antidote to poverty in poor countries. In other words, in most developing countries, poverty is so widespread and so pervasive that it makes little sense to tackle parts of the problem here and there – rather, the attack on mass poverty needs to be at the very centre of overall national policy.

Trends in Asia's mass poverty

Any attempt to survey the many issues concerning mass poverty in Asia needs to summarise a vast topic. In order to make some judgements about the likely impact of the current global financial crisis on the poor in the region, it seems best to focus on four main issues:

- Policy before the 1997-98 crisis
- Policy after the 1997-98 crisis
- The impact of the current GFC, and
- Some of the policy implications of these recent trends and current developments.

Policy and poverty before the 1997-98 crisis

In the period before the great Asian economic crisis of 1997-98, there had been growing confidence across the region in the widely-accepted emphasis on the importance of pro-market economic growth.[6] With some exceptions, and with some important qualifications, many economic policy-makers in developing Asia had come to broadly accept the set of ideas dubbed the 'Washington Consensus' (Figure 2).

In the decade or so before the 1997-98 economic crisis, levels of the deepest poverty had tended to fall markedly across the region in countries such as Thailand and Indonesia where rapid economic growth had taken place. Conversely, in countries such as the Philippines and PNG where economic growth had been slower, relatively little progress had been made. In considering the implications of these trends, two points may be made.

First, although the progress made in reducing mass poverty during the 1980s and early 1990s was very encouraging, it would be a mistake to overstate the importance of the gains. For hundreds of millions of poor people across the region, especially in South Asia, what these so-called gains meant was that very large numbers of people climbed just slightly above the extremely austere international poverty levels of either $1 or $2 per day. On the one hand, these gains were worthwhile. On the other hand, by any of the decent standards that are regarded as normal in rich countries, almost all of these people remained very poor indeed.

Second – and just as important – the overwhelming consensus of careful economic research indicates that by far the single most important factor which caused these reductions in mass poverty across the region was strong and sustained economic growth. Other factors, such as redistributions of income, government social security programs, or the impact of foreign aid, were relatively unimportant. For example:

- In China, the impact of strong, sustained rapid economic growth on overall levels of poverty has been dramatic. Following key economic reforms in the late 1970s, economic growth in China accelerated markedly during the 1980s and 1990s. China was the most rapidly growing country in the world in the 25 years to 2005. This growth led to a remarkable increase in real living standards – albeit from a very low base – and to an unprecedented decline in poverty.

- In India, progress in reducing poverty has been less marked than in China. Nevertheless, according to World Bank estimates there has been significant decline in the worst level of poverty (consumption below $1.25 per day) from around 60% of the population in 1981 to 42% in 2005. The strong growth record in India since the key economic reforms of the early 1990s has clearly contributed to important gains during the past 15 years.[7]

- In Indonesia, rapid growth and reductions in poverty since the 1970s have been closely linked. A long-time scholar of economic trends in Indonesia, Professor Peter Timmer[8] summed up the lessons of a recent World

Bank study of the link between growth and poverty in Indonesia as follows:

> 'The main message from this study is succinct but powerful: *The poor in Indonesia have been very closely connected to economic growth in the country, benefiting differentially when the economy was growing rapidly, and suffering disproportionately when the economy is not growing, or suffers a major crisis, as in 1998. Of all the country experiences in this project, Indonesia's record from the late 1960s to the mid-1990s was one of the most "pro-poor," and from the late 1990s to the present, one of the most traumatic.*' [emphasis in original]

Over a decade ago, in 1996 just before the Asian crisis, *The Economist* summarised the lesson that emerged from experience in these and other developing countries. The lesson is so important that it is worth quoting at length:[9]

> Understanding growth is surely the most urgent task in economics. Across the world, poverty remains the single greatest cause of misery; and the surest remedy for poverty is economic growth. It is true that growth can create problems of its own (congestion and pollution, for instance) ... But such ills pale in comparison with the harm caused by the economic backwardness of poor countries ... The costs of this backwardness, measured in wasted lives and needless suffering, is truly vast. ...
>
> To its shame, economics neglected the study of growth for many years. Theorists and empirical researchers alike chose to concentrate on other fields, notably on macroeconomics. ... But over the past ten years or so, this has changed. Stars such as Robert Lucas of the University of Chicago, who last year won the Nobel prize in economics, have started to concentrate on growth. As he says of the subject, 'the consequences for human welfare ... are simply staggering. Once one starts to think about them, it is hard to think of anything else.'

Policy after the 1997-98 crisis

In looking over trends during the past decade in developing countries in Asia, it is useful to appreciate that the crisis of 1997-98 was something of a turning point for economic policy across the region. Just as the current GFC is shaking some of the fundamental assumptions about policy-making in rich OECD countries, so the great Asian economic crisis of 1997-98 struck deeply at some of the key assumptions which had underpinned much economic policy across Asia in the previous two or three decades.

The lesson of the decade or so before the crisis of 1997-98, therefore, was that economic growth was central to poverty alleviation. But the 1997-98 crisis did a good deal of damage to the faith in the Washington Consensus in developing countries in Asia. Even in major countries such as China and India which were not greatly affected by the crisis in a direct sense, policy-makers took careful note of the impact of the crisis in the region and drew their own conclusions about the implications for economic strategy. Amongst the most important of these conclusions were the following:

- Across the region, there was an increased scepticism about the idea of the benefits of relying on the unfettered benefits of pro-market globalisation and on open markets, especially open financial markets.
- There was a marked reduction in the appetite for debt across the region and a tendency for a number of important countries to bolster, as they saw it, their external economic security by accumulating large and growing foreign exchange reserves.
- An increased caution on relying on the support of the major international financial institutions, especially the International Monetary Fund.

After the crisis, many aspects of economic policy changed in developing Asia. And in a sense, there was a crisis of faith. To be sure, there was still a confidence in the importance of economic growth across the region, but there was a heightened sense of caution as well. Caution was reflected in various ways:

- In China, there was a very large build-up in foreign exchange reserves which, eventually, contributed to the GFC.
- In India, there was caution about opening the economy and, in particular, a conservative approach to banking regulation was adopted.
- In Indonesia, a long period was spent repairing the national balance sheet and taking steps to strengthen the domestic banking sector, combined with encouraging the current account deficit to move into surplus and adopting a sharp reduction in overseas borrowing.

More generally, although the impact of the various factors which affect the level of poverty varied across the region, an extremely worrying phenomenon of 'jobless growth' became increasingly apparent.[10] It is not easy to untangle the precise relationship between this phenomenon of slower job creation and poverty levels in different counties. However, as a first step, it is useful to appreciate that the overall rate of poverty reduction in any particular country is influenced by many things, including the relationships between (a) the rate of income growth, (b) changes in inequality, and (c) the employment intensity of income growth.[11] The interrelationship between these various factors varied across Asia in the 1990s and after 2000 (Table 3) but one recent review of developments across the region summarised the trends as follows:[12]

> The employment intensity of growth … has not only been low but has been declining over time in some of the fastest growing Asian countries (e.g., China and India). Further, out of the eight countries under review here [listed in Table 3], all with the exception of Malaysia experience the problem of inadequate employment growth … .

The result of these trends can be seen, for example, in Indonesia (Table 4) where the total numbers of people in poverty did not change much between the pre-crisis level (in 1996) and the level about a decade later (in 2008).

Impact of the GFC

This brings us to the present. What can we say about current developments?

First, it is now fairly clear from news in recent months that the current GFC will have a significant impact on poor countries across the world, including poor countries in Asia. This was arguably not so obvious 12 months ago when there was still discussion about the possibility of Asia 'decoupling' from a recession in the rich countries. However, it is now clear from the reports that are flooding in that the impact of the GFC will be felt across poor countries in three main ways:[13]

- through export markets,
- through changes in international capital flows, and
- in markets for labour.

The collapse in *export markets* across the region in recent months has been dramatic. In Japan, export revenues in February were nearly 50% below revenues in February 2008. Japan, of course, is not a developing country. But it is the world's second largest economy with important economic linkages across the Asian region. A slump in Japan is bound to reverberate across developing countries in Asia. In China, it is reported that tens of thousands of export-oriented firms in cities such as Shanghai and Guangzhou have closed in recent months. And according to a recent report from the Asian Development Bank:[14]

> Since the fourth quarter of 2008, the drop in developing Asia's export growth has been huge – averaging nearly 30% in East and Southeast Asia and approaching double digits in South Asia.

The sharp falls in export incomes that these trends reflect are certain to translate into sizeable job losses very quickly. In China, for example, it was recently reported that 20 million domestic migrant workers have lost their jobs as a result of the collapse in export orders.

The impact of developments in *international capital markets* presents serious risks for poor countries in Asia as well. In recent months, all major global financial institutions have understandably become much more risk-averse. International financial agencies are much more cautious about providing finance than was the case before the GFC broke out. The ADB notes that, 'the region is … experiencing a precipitous drop in foreign direct investment' and 'funding for infrastructure projects is fast drying up.'[15] The result is that many developing countries are finding that their access to international capital is being squeezed.

The third way in which the GFC is affecting poor countries is through *labour markets*. In 2007, around 200 million migrant workers worldwide were employed overseas in such places as Europe, the United States, and the Middle East. The great bulk of this 200 million came from developing countries. The remittances that these workers send back home are a key source of income for developing countries. For some developing countries such as the Philippines, remittances from expatriate workers are the single largest source of export revenue. And in total, the global flow of remittances from overseas workers back to developing countries in 2007 was over US$280 billion, well over double the total flow of global foreign aid.

Current data is hard to come by so we can only make guesses about the likely impact of the GFC on the flow of international remittances to developing countries. According to various estimates prepared by the World Bank and other agencies,[16] the growth rate of remittances to developing countries is expected to slow significantly in 2009. Remittance flows to South Asia (India, Bangladesh and Pakistan), for example, are forecast to slow sharply from over 16% growth in 2008 to zero in 2009. More generally, remittances to most developing regions of the world are expected to remain almost flat in nominal dollar terms. Closer to Australia, the rising pressures on international labour markets are being felt in Indonesia. There are reports that up to 200,000 Indonesian workers – out of a total of over 4 million expatriate Indonesian workers worldwide – might need to return home if the international economic crisis remains severe.[17]

Summing up the overall impact of the GFC on poverty in Asia

What will be the combined impact of these various factors on poverty in developing countries in Asia? It is not possible to be very precise about the impact at this stage but in January the International Labour Organisation issued some preliminary estimates:[18]

- As far as *unemployment* is concerned, the ILO suggested that the total number of people unemployed in poor countries in Asia might rise by somewhere between 15 million–27 million between 2007 and 2009, depending on the impact of the GFC.

- But the ILO also emphasised that very poor people cannot really afford to be unemployed because 'many of the poor cannot survive without working.' The numbers of people forced into 'working poverty' are therefore perhaps a better measure of the impact of the GFC than unemployment figures. Depending on how the estimates are prepared, the ILO forecasts that the increase in the numbers of *working poor* in Asia is likely to be between 50 million and 120 million as between the two years 2007 and 2009.[19]

The post-GFC policy environment

If these are the trends, what are the policy implications for the developed world?

The first thing to note is that this significant increase in poverty is unlikely to attract much attention in rich countries. During the next few years, economic conditions are likely to be sluggish in rich countries and unemployment seems certain to rise. Leaders in rich countries will be expected to focus on problems at home. The crisis in the first world is likely to get priority; the crisis in the third world is likely to be put in the too-hard basket for the immediate future.[20]

The second thing to note is that there are worrying signs of growing protectionism in rich countries. In talking of protectionism, there is sometimes a tendency to focus on controls on market flows of traditional commodity exports and imports such as agricultural and manufactured products. But in a globalised world where goods, services, capital and labour are all mobile, protectionism can take many forms. And each of the three areas that have been mentioned – that is, in trade, capital flows, and labour market – protectionism in rich countries has recently been on the rise.

For example, since the G-20 leaders summit in November in Washington where leaders pledged not to raise new barriers to trade or investment, the pledge has been widely flouted. The World Bank recently estimated that 17 of the G-20 countries have instigated 47 policies that have restricted trade since the G-20 summit last November. Developing countries in Asia have also introduced new restraints on trade.

In labour markets too, the President of the World Bank, Robert Zoellick noted that national leaders are under pressure to increase barriers to free movement. He recently said that 'We are already seeing creeping protectionism – measures taken at the expense of other countries: "Buy this" or "Buy that" campaigns, "jobs for these workers" or "no visas for those".'[21] Australia has recently cut back its immigration intake.

But perhaps most worrying are the signs of increasing protectionism in capital markets. In recent months, many rich countries have introduced various forms of assistance for their domestic financial sectors. Some of these have clearly been emergency measures needed to head off systemic collapse. But others look harder to justify in economic terms, and some have a distinct whiff of favouritism about them. And certainly some of these other measures have the effect of tilting access to the playing field for international capital markets in favour of rich countries themselves. Referring to measures of this latter kind, UK Prime Minister Gordon Brown recently described them as 'mercantilism in a new form' and 'a form of financial protectionism.'[22]

Financial protectionism, it might be noted, greatly complicates the job of economic management in developing countries, and does much harm to the poor. There are three key points to consider in surveying recent developments in international capital markets. First, as is well known, conditions in international capital markets have deteriorated markedly during the past 12 months. As a result, access to international finance for all countries, including developing countries, has become more difficult.

Second, access to international finance remains very important for developing countries. Developing countries sometimes need access to emergency sources of short-term finance to help deal with an economic crisis. When the system fails them – as it did in Indonesia and several other Asian countries during the 1997-98 crisis – levels of poverty tend to rise quickly (Table 4). In addition, developing countries need access to quite large amounts of long-term capital to promote their development programs. During the next few years, expenditure on infrastructure in Australia is currently forecast to be around $2,000 per capita – and may well be considerably more once the new $40 billion National Broadband Network project gets underway. In contrast, expenditure on infrastructure in Indonesia is likely to be as low as $100 per capita despite the fact that Indonesia has massive infrastructure needs. The efforts of Indonesia and other developing countries to overcome poverty will be greatly hampered if their access to international capital markets becomes more difficult.

The third key point is that because there is competition between rich countries and poor countries in accessing international capital markets, financial protectionism on the part of rich countries hurts poor countries. Whilst it is true that some proposed reforms to international financial institutions such as the IMF and international development banks might provide some extra funding for developing countries, the overall impact of the proposals currently under consideration seems likely to be small.

Two other important implications of the GFC need to be noted. One is that developing countries in Asia are largely on their own in responding to the GFC.[23] The slump in international demand for their exports through trade markets will be severe; capital markets are likely to be difficult to access; and flows from remittances can be expected to be stagnant. The appropriate response will vary from country to country but the main medium-term goal of policy in most poor countries should be to stimulate economic growth through sound pro-market and pro-investment policies at home.

The other implication is that choices about what many people see as a *third* global crisis – the crisis of climate change – have become increasingly difficult. On one hand, many people, especially in rich countries, now suggest that an emphasis on old-fashioned forms of economic growth is unsustainable. On the other hand, developing countries in Asia evidently need to grow rapidly to reduce poverty. On the face of it, there is a sharp clash between rich and poor countries on key economic growth and energy issues. And faced with urgent immediate economic challenges caused by the GFC, neither rich countries nor poor countries are inclined to compromise easily.

There is no easy way to resolve the differences between rich and poor countries. But two things seem clear. First, during the next century, huge increases in energy output will be needed in developing countries to support meaningful reductions in mass poverty. Second, given the need for energy in poor countries, nearly all of the mainstream proposals for tackling global climate change so far discussed in rich countries seem likely to be quite unacceptable to developing countries. When discussing this subject, the rich world and the poor world seem to be living on different planets.

Policy implications for Australia

What are the implications of these trends for Australian development policy, and for Australia's economic diplomacy in the Asian region?[24]

It is true that the problem of mass poverty in Asia is not often emphasised when Australian policy-makers discuss Australia's relations with Asia. And it is also true that there are many other competing goals for Australian development policy in the region. But many Australians expect that the Government, in setting foreign policy goals, will give proper priority to the immense challenge of reducing mass poverty in Asia.[25] Additional steps that the Australian Government might take to strengthen Australia's credentials in this area of policy in the region include the following:

(1) Place a clear emphasis within Australia's economic diplomacy on supporting strong economic growth in developing countries in the Asian region. This is more important – and more controversial – than it might seem. These days, reflecting the influence of European donor aid policies, there are significant and growing voices in favour of an emphasis on social policies in development policy in poor countries in Asia. As just one example, in late March, Dr Noeleen Hayzer, the Executive Secretary for UN ESCAP in Bangkok, called for a strengthening of social policies across the region. She said that:[26]

> The provision of minimum wages, unemployment insurance and expansion of other social protection schemes will help bolster domestic demand during times of uncertainty. These social support systems need to be implemented as part of a development framework that helps create longer term macroeconomic stability for the region.

Whilst it is certainly desirable, in principle, that policies of this kind be eventually strengthened, the harsh budget constraints that exist in all of the poor countries across the Asian region rule them out as meaningful options in the near future. For the present, the best way to help the poor is to promote strong, sustainable economic growth in preference to unaffordable pro-welfare economic policies.

(2) Encourage more support for attention to the issue of mass poverty in public policy discussion, both within Australia and at the international level. For example:

(a) The Australian Government, as part of Australian economic diplomacy towards Asia, might provide an annual statement on mass poverty in the Asian region to the Australian Parliament.[27] It would be best that in discussing policy responses, such a statement went beyond a discussion of foreign aid to address broader aspects of development policy because aid has only a small influence on the rate of poverty reduction across Asia.[28]

(b) Consistent with an annual statement to Parliament, more attention could be given to mass poverty in discussions in regional institutions. It is noticeable, for example, that speeches by Australian representatives in Asia make little reference to the issue of mass poverty. There needs to be a clearer recognition of the fact that economic stability and prosperity across the region are not matters of charity. Rather, issues of economic stability and prosperity in the region are matters of clear national interest both for Australia and for our regional partners.

(c) Support could be encouraged for the establishment of a public policy think tank in Australia with a special mandate to promote discussion about issues of mass poverty in Asia and other relevant development issues. Institutions such as the ANU Poverty Research Centre might, for example, receive significantly increased support.

(3) Increased assistance might be provided for measures to strengthen the voice of the poor across the region. Steps to strengthen regional think tanks which give attention to poverty-related issues, such as AusAID's support for SMERU, one of Indonesia’s most well-known think tanks, is a good example of the way in which this might be done.[29]

(4) A range of efforts to strengthen access for the poor to information and knowledge might be considered. As just one example, numerous international agencies produce reports about development issues and poverty. Stakeholders in developing countries often have difficulty in accessing these documents. Australian policy in international agencies should be directed to supporting wider access to stakeholders from poor countries to these documents.

(5) Make the case to OECD donor partners for giving priority to tackling poverty in Asia. Emphasise the fact, in international meetings, that the majority of the world's poor live in Asia. Australia and Japan are the two main OECD donors with a focus on Asia; Australia might do well to join with Japan in ensuring that the international donor community is more aware of the priority that needs to be given to promoting economic growth and alleviating poverty in Asia.

NOTES

[1] An earlier version of this paper was presented to a meeting of the Canberra Branch of the Australian Institute for International Affairs, Canberra Branch, on 23 April 2009.

[2] The literature on poverty in Asia often does not emphasise the *mass* nature of the phenomenon of poverty in the region. But for reasons discussed later in the paper, the *mass* nature of poverty is one of the most important features of poverty in Asia. John Kenneth Galbraith placed emphasis on the ubiquitous feature of poverty in the region in his book *The nature of mass poverty*, New York, Penguin, 1980, as did Indira Gandhi in many speeches, *Selected speeches and writings of Indira Gandhi, Volume V, January 1 1982 – October 30 1984*, Delhi, Government of India, 1986.

[3] An important overall survey of global poverty issues at the turn of the century was issued by the World Bank in the World Development Report 2000/2001 on *Attacking Poverty* (World Bank 2000).

[4] The poverty line of $1.25 per day is an updated measure of an earlier $1 per day first used by the World Bank in 1990. For the purposes of these latest calculations, the earlier $2 per day measure of 'vulnerability' was left unchanged. There is, it needs to be noted, a veritable kaleidoscope of numerous different versions of 'poverty lines' used in different countries in different ways. The paper by Bauer et al (2008) provides a good summary of current approaches in Asia including a useful listing of national poverty lines used in some of the main Asian countries.

[5] *The chronic poverty report 2008-09: escaping poverty traps,* prepared by the Chronic Poverty Research Centre (2008) contains a discussion of issues affecting mass poverty.

[6] World Bank. *The East Asian miracle: economic growth and public policy*. Oxford University Press for the World Bank, New York, 1993.

[7] Many Indian commentators, it should be noted, have drawn attention to the important fact that poverty reduction has been slower than might have been expected from the rapid rate of economic growth. The issue of 'jobless growth', discussed later in the paper, appears to have contributed to this worrying phenomenon.

[8] C. Peter Timmer, Indonesia: operationalising pro-poor growth, Country study for the World Bank, draft, June 2005.

[9] The poor and the rich, *The Economist*, May 25-31 1996, p 25.

[10] Jesus Felipe and Rana Hasan. *The challenge of job creation in Asia.* Asian Development Bank, Economics and Research Department ERD Policy Brief No. 44. April, 2006.

[11] Ifzal Ali and Juzhong Zhuang. *Inclusive growth towards a prosperous Asia: policy implications.* Asian Development Bank, Economic and Research Department Working Paper No 97. July. 2007.

[12] Azfar Khan, Rola Abimourched, and Ruxandra Oana Ciobanu. *The global economic crisis and the impact on migrant workers.* ILO note, 2009.

[13] Asian Development Bank. *The global economic crisis: challenges for developing Asia and ADB's response.* Manila, 2009.

[14] Asian Development Bank. *Asian Development Outlook 2009*. Manila, 2009.

[15] Asian Development Bank. *The global economic crisis: challenges for developing Asia and ADB's response.* Manila, 2009.

[16] Azfar Khan, Rola Abimourched, and Ruxandra Oana Ciobanu. *The global economic crisis and the impact on migrant workers.* ILO note, 2009.

[17] Mustaqim Adamrah, Thousands of RI workers on hold for overseas jobs. *Jakarta Post*, 13 April 2009.

[18] International Labour Organisation. *Global employment trends: January 2009*. Geneva, ILO, 2009.

[19] ADB estimates are of the same order of magnitude. See ADB, *The global economic crisis: challenges for developing Asia and ADB's response.*

[20] Peter Hartcher discussed this issue in his article, Not now, poor countries. Can't you see we're busy? *Sydney Morning Herald*, 18 May 2009.

[21] Chris Giles and Alan Beattie. Pledges fail to halt anti-trade tide. *Financial Times*, 31 March 2009.

[22] Gordon Brown. Behind the moves to restore confidence. *Financial Times,* 10 February 2009.

[23] Flows of development assistance are too small to be of significance.

[24] A survey of recent thinking about economic diplomacy can be found in Nicholas Bayne and Stephen Woolcock, *The new economic diplomacy: decision-making and negotiations in international economic relations*. Aldershot, Ashgate, 2007.

[25] For example, the most recent major independent review of the Australian foreign aid program, in 1997 chaired by Paul Simons, urged that there should be be 'one clear objective' for Australia's aid program, which was 'poverty reduction through sustainable development.' Australian Government, Overseas Aid Program, Committee of Review, *One clear objective: poverty reduction through sustainable development*, Canberra, 1997. Chapter 19 of the report discusses public perceptions of the aid program and summarises recent polling to that time (1997). The report noted (p. 292) that 'It is difficult to gauge directly public attitudes to overseas aid' but went on to quote from a commissioned review of overseas aid which summarized 25 surveys conducted in Australia since the early 1970s. That review, reported in B. Elliott, *Review of Community Attitudes Surveys on Overseas Aid,* AusAID, 1997, concluded that 'Overseas aid is approved by a majority (66-75 per cent) of Australian adults …' A more recent study (2005) commissioned by AusAID, on the basis of a Newspoll survey, reported that there had been 'a large increase in the strength of approval for overseas aid' and that 'nine-in-ten Australians continue to regard reducing poverty as either an "extremely" or "very" important issue facing the world today.' See the Newspoll survey, *Overseas Aid Study*, prepared for AusAID, March 2005.

[26] Noeleen Heyzer. Asia-Pacific can emerge stronger. *Korea Times*, 25 March 2009.

[27] Note that in recent years governments around the region have themselves been increasingly open about discussing poverty, and that OECD governments already discuss issues which are much more sensitive (such as corruption, human rights and lack of democracy). Providing the issue is addressed with appropriate language, there should be no major diplomatic issue here.

[28] There is a very large literature which attempts to measure the relationship between foreign aid and poverty, both in developing countries across the world and in Asia. Some studies show that depending on circumstances, foreign aid can have a measurable impact on the rate of poverty reduction in Asian countries. See, for example, Asra et al, *Poverty and foreign aid: evidence from recent cross-country data*, Economics and Research Department Working Paper No 65, Asian Development Bank, March 2005. Other studies find it hard to measure any direct link. There are numerous problems in attempting to measure any direct link between foreign aid and poverty reduction: the quality of data is often poor or hard to interpret, and furthermore, it is clear that there are many factors which influence the rate of poverty reduction in any country so it is hard to distinguish between the influence of foreign aid and the influence of numerous other economic, social and political variables. Many of the issues are discussed in

Elisabeth Paul, A survey of the theoretical economic literature on foreign aid, *Asian Pacific Economic Literature*, 20(1), May 2006.

[29] SMERU research activities give special attention to current socioeconomic and poverty-related issues in Indonesia. Further information is at the SMERU website, http://www.smeru.or.id/.

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ANNEXURE

TABLE 1: Summary—New Poverty Data for Asian Countries (2005 poverty levels)

(pd = per day; mn = million)

Region	Old Estimates (1993 base)				New Estimates (2005 base)			
	$1.00 pd		$2.00 pd		$1.25 pd		$2.00 pd	
	People mn	%	People mn	%	People mn	%	People mn	%
Central and West Asia	49	19	170	53	49	21	124	49
South Asia	389	30	1,009	79	550	42	979	76
(of which: India)	336	31	873	80	456	42	828	76
Southeast Asia	56	10	259	47	93	19	221	40
East Asia	196	15	544	42	208	16	475	36
(of which: China)	196	15	543	42	208	16	474	36
Pacific	2.4	26	4.9	53	2.2	24	3.8	41
Developing Asia & Pacific (26 countries, World Bank)	664	20	1,939	58	903	27	1,802	54

Source: Armin Bauer et al, "The World Bank's New Poverty Data: Implications for the Asian Development Bank," ADB Sustainable Development Working Paper Series, No 2, Nov 2008.

NOTE: The new (2005) estimates reflect new methods of calculation. For details, see the ADB paper by Armin Bauer and colleagues.

TABLE 2: New Poverty Data for Selected Asian Countries (2005 poverty levels)

Numbers and share of population below $2.00 per day

Country	People mn	Share %	
Bangladesh	123	80	
India	828	76	
Laos	4	70	
Timor Leste	1	70	
Cambodia	10	68	
Pakistan	94	60	
Indonesia	119	53	
PNG	3	51	
Viet Nam	42	50	
Philippines	38	45	
China	474	36	
Sri Lanka	7	34	
Thailand	7	12	
Malaysia	2	8	
Total	1,752	54	*

Source: As for Table 1.

* = Percentage is for 26 countries covered by World Bank survey.

TABLE 3: Recent Trends in Growth, Employment and Poverty, Selected Asian Countries

Country	Income per head 2004 (a)	Income growth	Inequality	Employment intensity of growth (b)	Poverty reduction
Malaysia	9,720	Rapid; some slowdown after 1997	High but some fall	Overall, growth has been employment-friendly	Rapid, except between 1997 and 1999
Thailand	7,930	Rapid until 1997; slow recently	High; rose until recently	Overall, growth has been employment-friendly	Fairly rapid; but less than potential
China	5,890	Very rapid	High and rising	Overall, employment performance has been poor	Rapid; but less than potential
Philippines	4,950	Slow	High and rising	Data hard to interpret	Slow, if at all
Sri Lanka	4,210	Modest	Moderate but rising	Growth was employment intensive	Slow
Indonesia	3,480	Rapid before 1998; slow since 2000 but rising	Low	Employment intensive growth before 1997-98 crisis; poor since the crisis	Rapid before 1997; slow in recent years
India	3,120	Moderate in the 1980s, rapid since early 1990s	Moderate but rising	Employment growth in the post reform period (after early 1990s) has been lower than pre-reform	Slow
Cambodia	2,310	Rapid but not robust	High and rising	Employment growth has been quite employment-friendly	Slow

Source: Khan, 2007. Asian Experience on Growth, Employment and Poverty.
(a) Per capita income is in purchasing-power parity dollars for 2004.
(b) The employment intensity of growth is the rate at which employment grows when output grows by one percentage point.

TABLE 4: Poverty levels in Indonesia, 1996 – 2008

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	
Indonesian Statistical Bureau estimates															
Total people	mill	34	na	49	48	39	38	38	37	36	35	39	37	35	
Share of population	%	17	na	24	19	18	18	17	17	17	16	18	17	15	
World Bank PPP US1.00 per day															
Total people	mill	15	na	na	25	21	20	15	14	16	14	19	15	14	*
Share of population	%	8	na	na	12	10	9	7	6	7	6	8	7	6	*
World Bank PPP US2.00 per day															
Total people	mill	100	na	na	135	125	125	116	110	109	102	114	105	101	*
Share of population	%	50	na	na	65	60	59	53	50	49	45	50	45	43	*

Source: Government of Indonesia, Coordinating Ministry of Economic Affairs, Government of Indonesia Evaluation of the Economy in 2008 and Outlook for 2009, Press release, 5 January 2009.

FIGURE 1: Factors affecting a policy response to poverty in rich and poor countries

Rich countries	Developing countries
(a) Relative poverty is the main focus of policy.	(a) Absolute poverty is the main focus of policy.
(b) Most poverty is localised, affecting identifiable and relatively small segments of the population.	(b) Mass poverty affects a substantial proportion of the population – in some cases over 50% of the population depending on the poverty line chosen.
(c) Targeted anti-poverty interventions are affordable, both in terms of the direct cost to the national budget, and in terms of the other indirect and often considerable non-budgetary costs (such as the indirect costs of rules and regulations introduced to assist poor groups). – It follows that a redistributive approach to poverty is feasible (and widely adopted)	(c) Targeted anti-poverty interventions impose costs which are difficult to bear, both in terms of the charge on the national budget, and in terms of the other indirect non-budgetary costs (such as indirect costs of regulations which often transfer costs from one poor group to other poor groups). – It follows that a redistributive approach is generally not feasible; rather, the emphasis needs to be on inclusive, pro-poor macroeconomic growth strategies
(d) Transfers per capita to targeted groups are often large; social welfare systems are well developed.	(d) Transfers per capita to targeted groups are generally small; social welfare programs are small or non-existent.
(e) The administrative capacity of official agencies is generally reasonably effective. There is therefore a reasonable likelihood that targeted anti-poverty programs will be implemented in a relatively efficient way.	(e) Administrative capacities of many official agencies are weak. Excess administrative strains often mean that (1) programs are poorly implemented, and (2) artificial goals – which sometimes create incentives for corruption – tend to be adopted.

FIGURE 2: Ten principles of the Washington consensus

1. Fiscal discipline.
2. Concentration of public expenditure on public goods (including education, health, and infrastructure).
3. Tax reform towards broadening the tax base with moderate to marginal tax rates.
4. Interest rates to be determined and positive.
5. Competitive exchange rates.
6. Trade liberalisation.
7. Openness to foreign investment.
8. Privatisation of state enterprises.
9. Deregulation or abolishment of regulations that impede entry to restrict competition, except for those justified on safety, environmental, and consumer protection grounds, and prudential oversight of financial institutions.
10. Legal security for property rights.

Source: Y. Hayami, From the Washington Consensus to the Post-Washington Consensus: Retrospect and Prospect, Asian Development Review, 20 (2) 2003.

ABOUT THE AUTHOR

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