

# **Asian Economic Development**

## **Yesterday, Today, and Tomorrow**

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ADB

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Asia has Miles to go Before it can Sleep

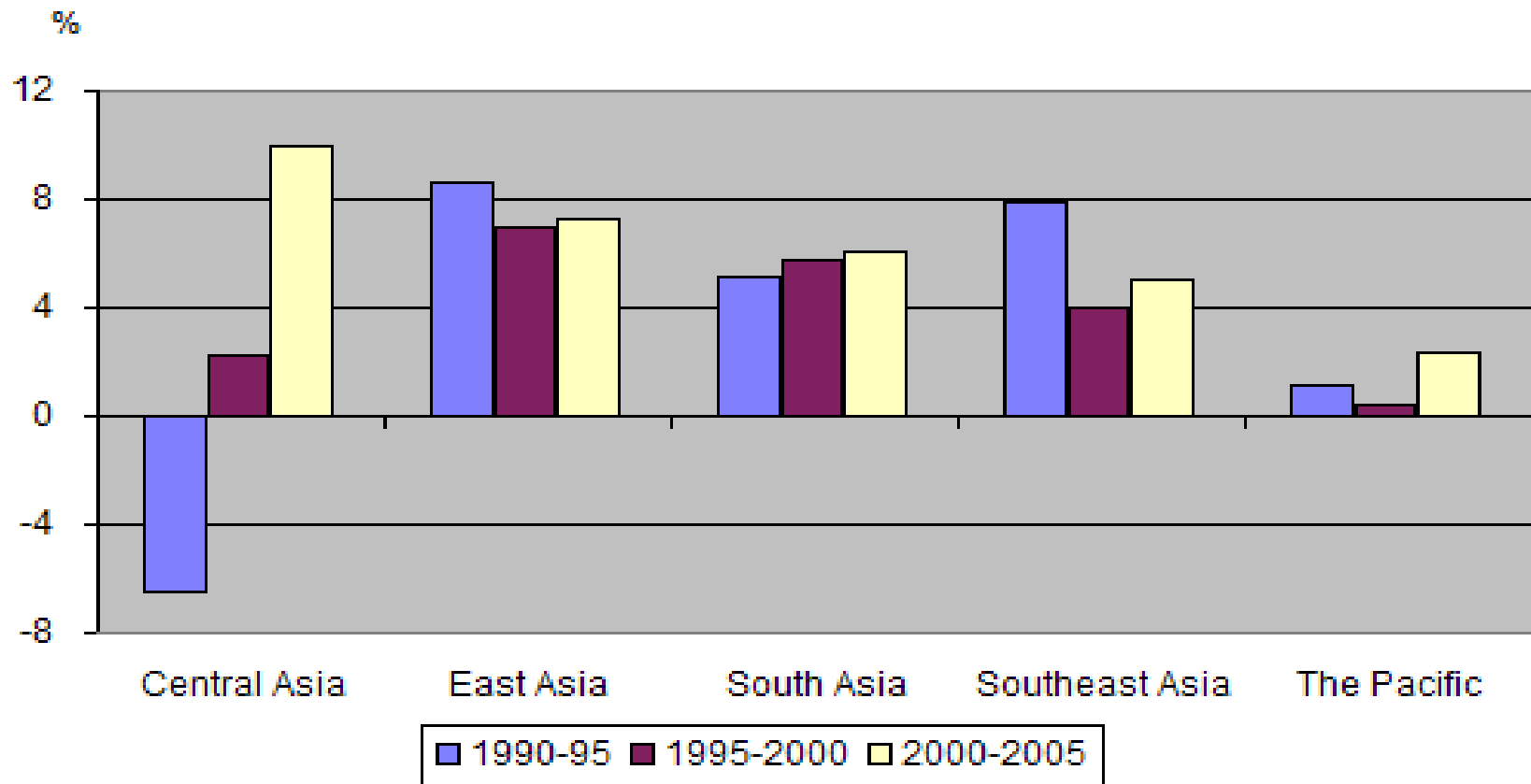
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# Development as Poverty Reduction

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# GDP Growth has been stellar



- PRC is the frontrunner
- India is stirring

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# Rising income Inequalities are worrisome

## Gini Coefficients of Selected DMCs, Various Years

	Initial		Later	
	Gini Coeff.	Year	Gini Coeff.	Year
PRC-Rural	30.57	1990	36.33	2001
PRC	37.00	1991	45.00	2001
Indonesia	33.12	1987	34.30	2002
Philippines	41.04	1985	46.09	2000
Viet Nam	34.91	1993	37.63	2002
Bangladesh	30.00	1991	41.00	2000
Sri Lanka	32.00	1990	40.00	2002
Nepal	34.00	1995	39.00	2003

Actual increase in inequality likely to be higher due to under-reporting by the rich

Higher inequality would dampen impact of growth on poverty

Increasing inequality must be arrested

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# Impressive Income Poverty Reduction

## Poverty in Developing Asia, 1990-2003 (\$1-a-day)

Poverty in developing Asia: 1990-2003 (\$1-a-day)



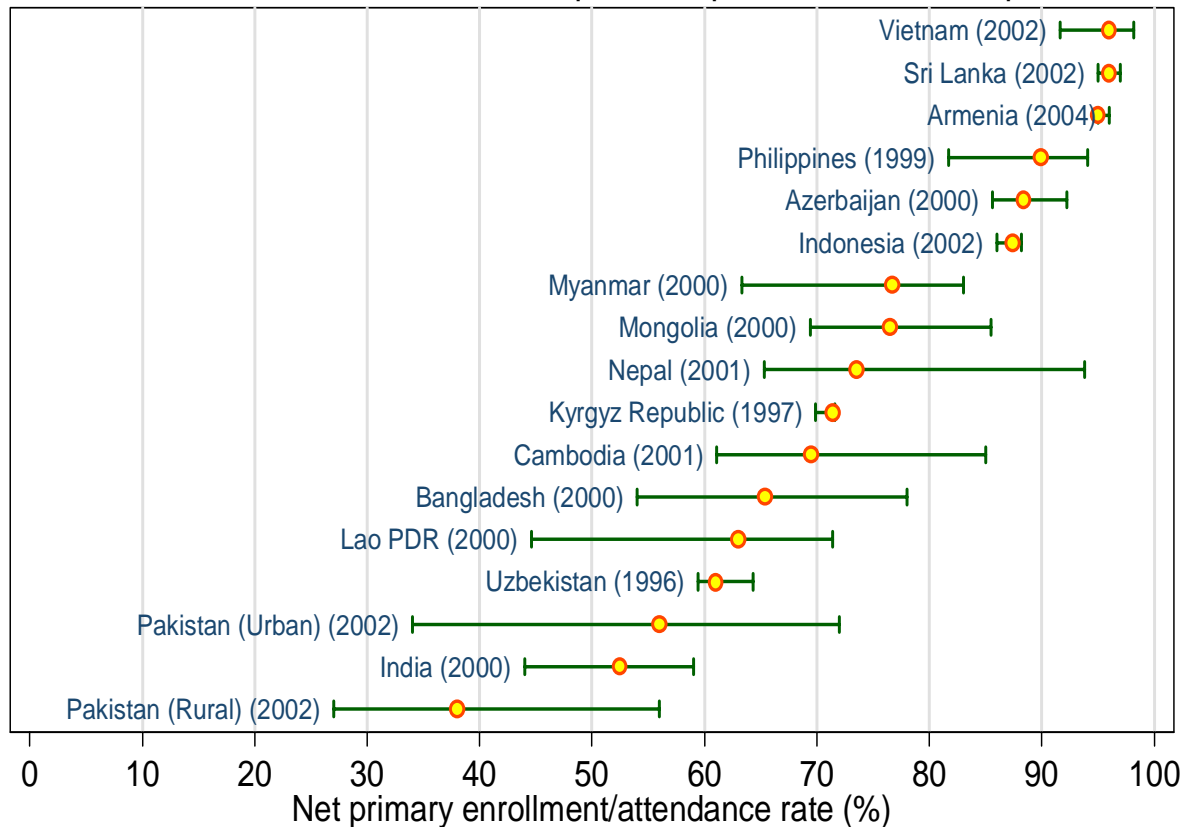
Impressive declines in Viet Nam, Lao, PDR, Pakistan, Nepal, and China.

Performance of Cambodia, India, and Indonesia respectable.

Poverty has risen in Uzbekistan, Tajikistan, and Turkmenistan.

# 1 Non-income Poverty: Mixed Outcome

Inequality in primary enrollment/attendance in selected DMCs, various years  
Enrollment/Attendance rates for poorest quintile and richest quintile



Source: Estimates compiled from various household survey data sources

Enrollment rates have improved; concerns remain regarding primary completion rates and quality of schooling.

Inequalities high: primary school aged children from poorer households three times more likely to be out of school than those from richer households.

# Inequalities in Child Mortality

## Inequality in Child Mortality

Country	Year	Low/High ratio
Armenia	2000	2.1
Bangladesh	1996	1.9
Bangladesh	2000	1.9
Bangladesh	2004	1.7
Cambodia	2000	2.4
India	1992	2.9
India	1999	3.1
Indonesia	2003	3.5
Kazakhstan	1995	1.2
Kazakhstan	1999	1.8
Kyrgyz Republic	1997	2.0
Nepal	1996	1.9
Nepal	2001	1.9
Pakistan	1991	1.7
Philippines	2003	3.1
Turkmenistan	2000	1.5
Viet Nam	1997	2.8
Viet Nam	2000	3.6

Note: Low/High ratio shows the ratio of under-5 mortality rates for those in the bottom quintile of wealth versus those in the top quintile.

Source: Gwatkin et al. (forthcoming) and WHO, WHOSIS.

Child mortality rates for the poor are two to three times higher than those for the rich.

MDG target can only be achieved with a focus on the health of the poor.

# 1 Why Focus on Health and Education of the Poor?

- Health and education key dimensions of welfare and capability enhancement in their own right.
- Equip the poor to participate in the growth process: faster responsiveness of poverty reduction to economic growth when human development is high.
- Education key determinant of movements out of poverty.
- Health-related shocks are prominent in pushing people into poverty.
- Social inequalities often trigger crime and political instability.

# Social Inequalities and the Nepalese Insurgency

Human Development Index by District in Nepal, 2004



Note: Higher values of the index imply higher human development.  
Source: UNDP (2004).

## Involvement of Public Sector is Key

- Externalities in health and education: private provision alone will not be socially optimal.
- Governments are dominant providers of primary schooling across developing Asia.
- The poor are far more likely to depend on public provision for access to health and education.
- Public provision is also the “weakest link”: evidence of failure and lack of accountability abounds.
- Governments that are weak in public provision are also likely to be weak in regulating private provision.

## **2** Development thinking and practice have evolved

## Emphasis on Microfoundations of development

- Role of microeconomics in poorly functioning land, labor and credit markets
- Role of informal networks and institutions in dealing with market failures
- Microdevelopment literature aims to understand what institutions may arise at a micro level to cope with such failures

## 2

# Meaning of Poverty Reduction Evolved

- Poverty defined in terms of low level of income or consumption
- Poverty as inability to achieve standards in nutrition, health, education
- Voice in decisions affecting poor people's lives
- Promote opportunity, facilitate empowerment, enhance security.

2

## An Instrumental Approach to development

- What actually works for development and why
- Demise of Washington Consensus: one size does not fit all
- Need for sound country-specific analysis, cross-disciplinary approaches

## 2 Complementarity of states and markets

- Dogma of planning and market failure (1950s, 1960s)
- Neo-liberal counterrevolution and massive government failure (1980s)
- Private sector is the engine of growth (1990s)
- State needs to ensure investment climate is conducive (2000s)
- State needs to invest in people (health, education, social protection) (2000s)

## 2

# Planners versus Searchers Debate

- Lack of financial resources is the problem (Sachs)
- Complexity of development requires searching for micro solutions (Easterly)

3

## Country Specificity and Institutions: New Emphasis

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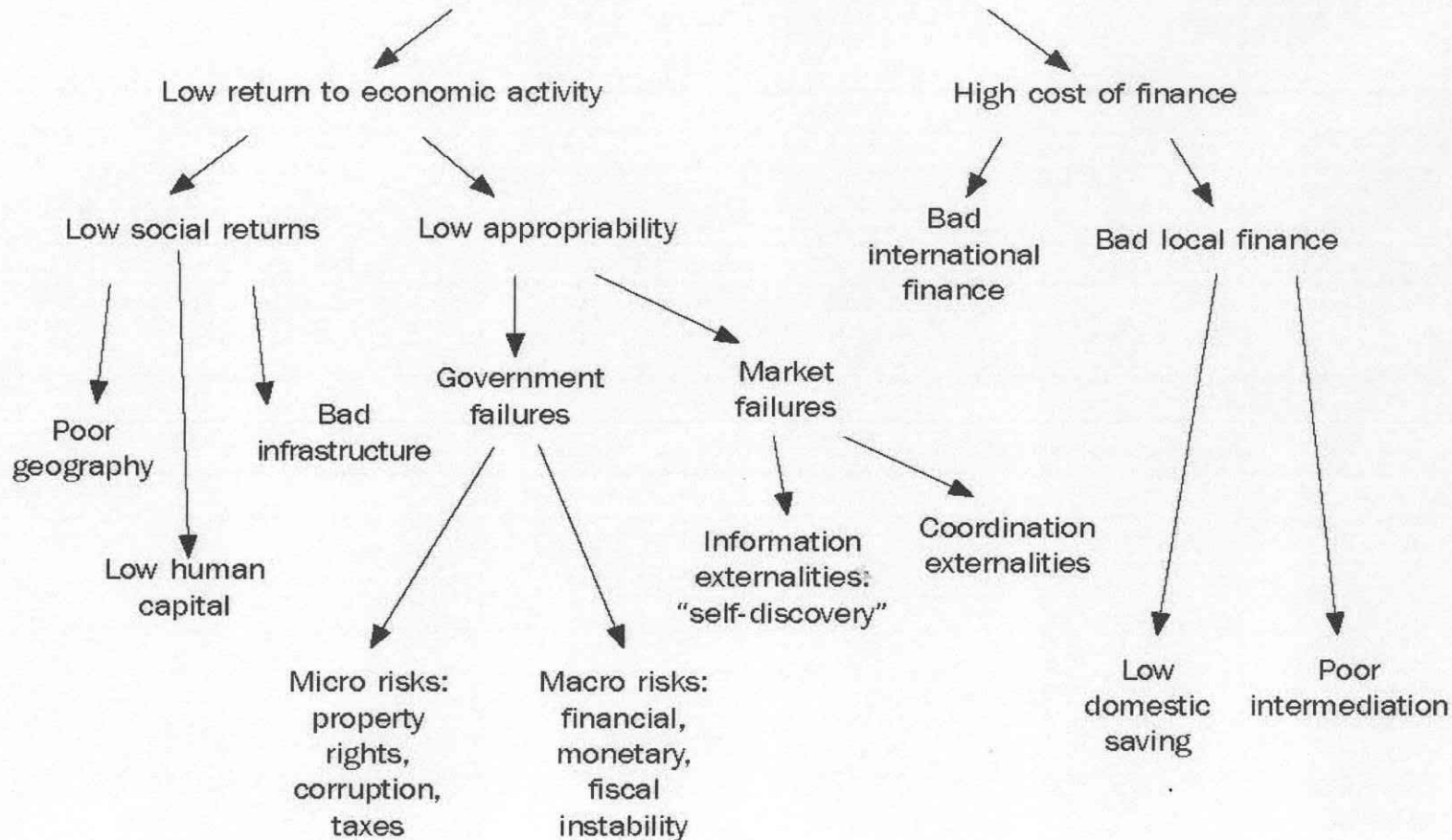
### 3

## Binding Constraints to Igniting and Sustaining Growth

- Country context is crucial for policy outcomes
- Binding constraints to growth unlikely to be same across countries
- Country specificity means: key is addressing binding constraints for growth at the right time in the right way
- Planning versus searching for solutions

# An Illustration of Growth Diagnostics

## Low levels of private investment and entrepreneurship



Source: Hausmann et al. (2005).

3

## **Institutions and governance take center stage in broadening inclusiveness**

- Countries with poor institutions and weak governance are plagued by
  - Poorly-designed and weakly-implemented policies
  - Shoddy infrastructure and public services
  - state harassment of citizens and business

3

## Weak institutions are associated with

- Dysfunctional markets, weak competitive pressures, and private sector dependent on government cronyism and corruption
- Incentives that encourage rent seeking
- Social norms formed around clientelism, rent-seeking and factional competition rather than social cohesion

### 3 An enlightened and strong state is needed for

- Igniting and sustaining growth
- Delivering social services to broaden inclusiveness
- Weak institutions/poor governance constitute major constraints to an effective state

4

# The Way Forward: Critical Development Challenges

## 4 Employment is Asia's Most Pressing Issue

- At least 500 million people are unemployed and underemployed
- 245 million new entrants by 2015
- Will they get jobs that are productive and decent?

# 4

## Broadening Inclusiveness to Growth

- Growth needs to be more inclusive for reducing poverty, and the key to achieving this is job creation
- Private sector is the key for sustaining growth and creating jobs
- Delivery of effective social services for empowerment of poor

## 4 Infrastructure Investment will be important

- Sustaining growth, attracting private investment, and creating jobs also require putting in place necessary infrastructural facilities.
- Enhancing long-term energy efficiency, seeking alternative energy sources, using natural resources in a sustainable manner, and protecting the environment are critical.

## Demographic Bonus or Onus

- The changing demographic profile leading to the potential of a significant demographic dividend offers a major opportunity in some DMCs but needs to be managed.
- Investing in and empowering people will be critical in mainstreaming the bypassed and the marginalized.

# 4

## Rural/urban migration will grow

- Large-scale rural-urban migration and urbanization are bringing new challenges of
  - governance,
  - service provision,
  - urban planning and development.

4

## Globalization must be embraced

- increasing intraregional integration of developing Asia and with the rest of the world
- offers great opportunities in terms of more trade and foreign capital
- poses new challenges from more competition, more risks, and greater vulnerability to external shocks.

# 5 Resilience in the face of turbulence: medium-term outlook

5

## Asia faces many external risks over the medium-term

- Global payments imbalances could unravel
- Risks of policy miscalculation resulting from dissonance in the inflation outlook and slowing growth in the US and EU
- Yet higher oil prices
- Proliferation of free trade arrangements from Doha failure
- Avian flu/contagious diseases
- Geopolitical risks

**5 Medium-term outlook (growth, inflation, current accounts) is bright with favorable external conditions**

- East Asia – PRC
- Southeast Asia – Viet Nam
- South Asia – India
- Central Asia
- The Pacific

## 5 Favorable macroeconomic outlook: opportunity for macroeconomic reforms

- Adjusting to higher oil prices
- Picking up the pace of fiscal consolidation
- Diversifying growth and raising investment (outside PRC)
- Creating the flexibility to cope better with shocks

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## Microeconomic reforms (4 Is) must be accelerated: competitiveness

- Institutions
- Incentives
- Infrastructure
- Information

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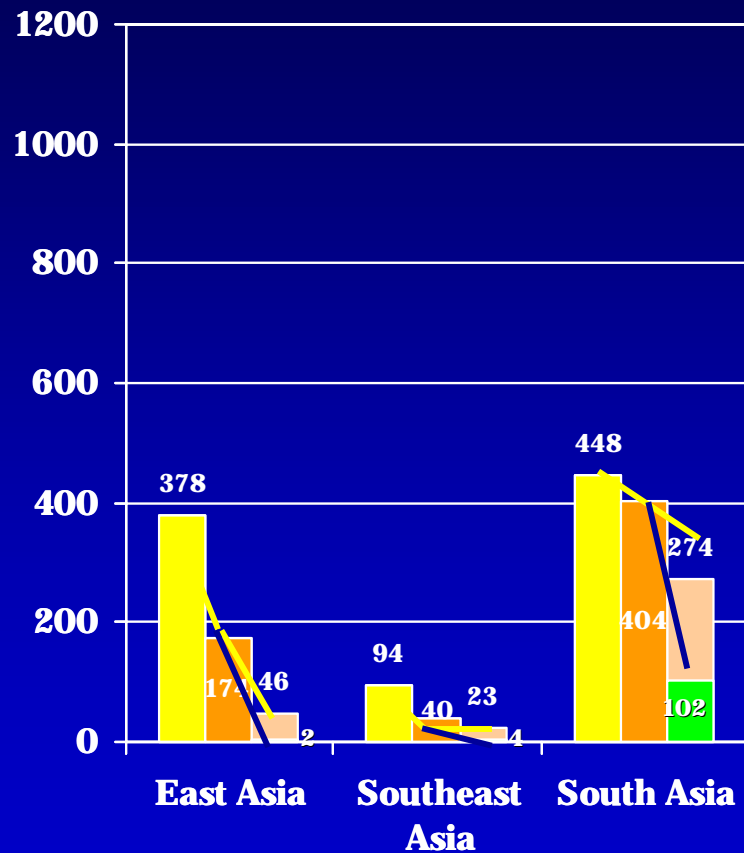
## Asia's Long-Term Poverty Outlook: Some Scenarios for 2015

## 6 Prospects under \$1 and \$2 Poverty Line

- For a given poverty line, poverty can be seen as depending on
  - \_ Average income
  - \_ Distribution of income across the population
- Scenario Analysis: Worst and Best
  - \_ Insights from:
    - Two types of growth rates
    - Two types of distributions

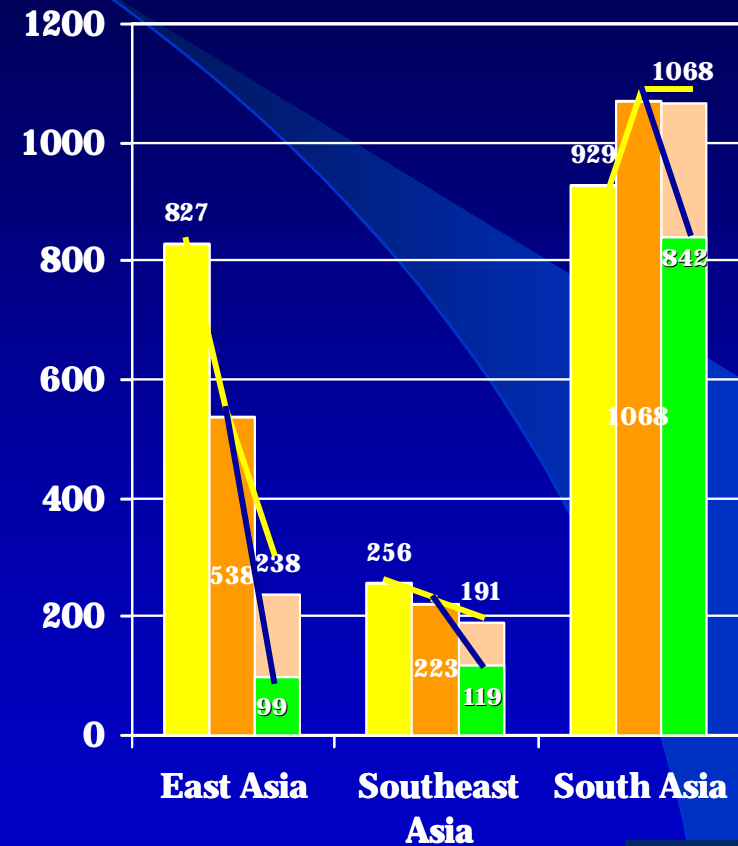
# Best & Worst Scenarios Considered

\$1-a-day Poverty (magnitude in millions)



■ 1990 ■ 2003 ■ 2015  
■ 2015

\$2-a-day Poverty (magnitude in millions)



■ 1990 ■ 2003 ■ 2015  
■ 2015

## Insights from Scenario Analysis

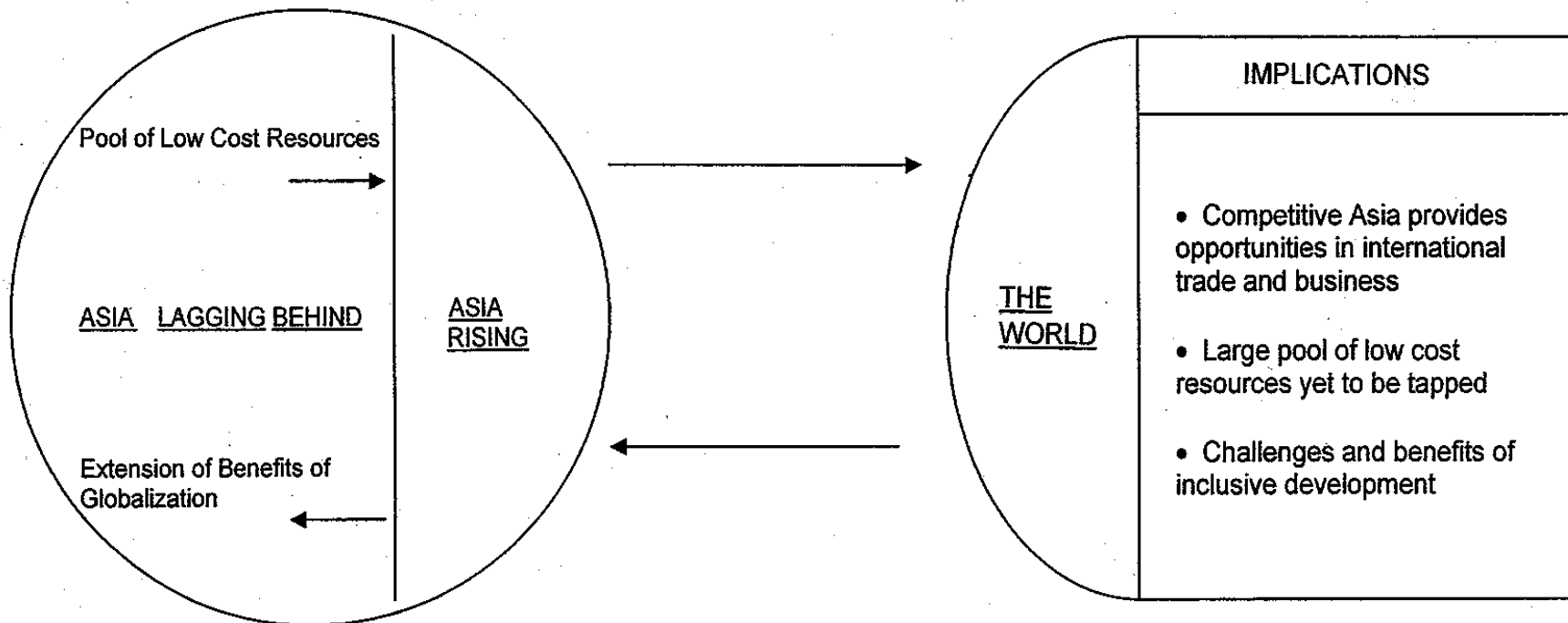
- Very significant differences between best and worst scenarios
- Policy makers need to address the issue of arresting the increase in inequality if not reverse it: employment for poor
- Significant step up in growth rates needed in countries/regions/sectors with high incidence of poverty.

## Policy and Strategic Initiatives

- Improved access for empowering the poor
- Attack rural poverty through raising agricultural productivity
- Improve policy environment for labor intensive non-agricultural sectors
  - ⇒ Job creation with productivity improvements for poor: core challenge in sustainable poverty reduction

# 7 Asia has Miles to go Before it can Sleep

## THE TWO FACES OF ASIA: ONE COMPETING INTERNATIONALLY AND THE OTHER LAGGING BEHIND



# Merging the Two Faces of Asia

## Labor Market Outcomes



## Policies



## Objectives

