

John West writes: Fareed Zakaria, CNN anchor man and leading international affairs commentator, once reported with much fanfare on the great fall in global poverty. Based on a "poverty line" of \$1.25, there has been a dramatic reduction in global poverty, even if much of it is attributable to China and to a lesser extent India. (Sub-Saharan Africa has experienced barely little improvement in its poverty.)

It is true that Asian lives have indeed improved immensely, as economies have grown. An expanding middle class is becoming a new feature of Asian societies, and a new driver of its economy. But such comments, which are made by experts and the media on a regular basis, paint a simplistic and too rosy picture, even of the case China.

Poverty in its many monetary and non-monetary forms, as well as vulnerability and insecurity remain endemic in Asia. And the notion of middle class in Asia means something very different from in a typical Western country.

What the statisticians tell us

World Bank statisticians do indeed estimate that in 2010 only 12% of East Asia's population was living on less than \$1.25 a day, stunningly down from 77% in 1981. And for China, which makes up the lion's share of East Asia, the fall is even sharper, to an amazing 9% in 2010. The achievement of South Asia is less, but still very impressive, with 31% of its population living in poverty in 2010, compared with 61% in 1981.

But this poverty line of \$1.25, designed to measure "extreme poverty", is next to meaningless in Asia, despite featuring regularly in international media headlines. It is a global poverty line, based on the average of 15 national poverty lines from the world's poorest countries, 13 from Africa and only Tajikistan and Nepal from Asia. And with more and more Asians living in the city, where life is much more expensive, this poverty line is even less relevant than it ever was.

The very concept of a \$1.25 poverty line is very far from reassuring. The idea is that if you consume \$1.25 worth of goods and services each day, your "basic needs" have been fulfilled. That is, you are unlikely to drop dead on the spot. But if you are earning \$1.26 a day, your life's problems have not yet been fully solved. Far from it!

Thus, poverty experts also talk of the concept of "moderate poverty", based on a poverty line of \$2 a day. This might be more realistic for many Asians. On this basis, some 29% of East Asians would be living in poverty in 2010, as would 66% of South Asians. This picture is far less rosy.

And if you take a poverty line of \$5 a day -- which might be much more relevant to life in Shanghai or other big Asian cities -- 70% of East Asians and 96% of South Asians would be living in poverty. In short, although things are getting a whole lot better, the vast majority of Asian citizens are living either in poverty, or close to poverty, and thus is a state of great vulnerability. The slightest economic, social or political crisis, not to speak of natural disaster, could very easily push large numbers of Asians back into poverty.

The much-vaunted middle class in emerging Asia (excluding Hong Kong, Japan, Korea, Singapore and Taiwan) remains in the lower segment of middle class status, as confirmed by an Asian Development Bank (ADB) study which broke the middle class into three groups \$2-\$4, \$4-\$10, and \$10-\$20. Only 250 million people from emerging Asia's massive population of 4+ billion are living on more than \$10 a day.  
A deeper look at Asia's poverty

Measuring poverty is a complex business. Media, government, civil society and business commentators will cite all sorts of statistics to suit their point of view. But one thing is certain is that simplistic poverty lines measures, like \$1.25 or \$2.00 a day, are totally inadequate for analyzing poverty in Asia.

As mentioned above, the \$1.25 poverty line is not suitable because it is a global poverty line, not an Asian poverty line, calculated in 2005, on the basis of national poverty lines in the very poorest countries, most of which are African, and not Asian. Thus, it is barely relevant to most Asian countries.

Merely re-estimating this based on Asian national poverty lines, as the ADB has done, results in an Asian poverty line of \$1.51 a day. On this basis, an extra 340 million Asians are estimated to be living in poverty, lifting Asia's 2010 poverty rate from 21% to 31%. More than half of these extra poor people live in India.

A further complication is that food prices have risen more than the general price level since 2005. The ADB estimates that when adjusting for real movements in food prices, an additional 140 million Asians were living in poverty in 2010 than previously estimated. Half of these extra poor people live in China. This adds 4 percentage points to the percentage of Asian people living in poverty.

The ADB has also estimated the impact on Asian poverty from natural calamities like floods, landslides, tsunamis, earthquakes, droughts and storms. Natural calamities are a growing phenomenon in Asia these past few decades. Poor people are typically highly exposed to such calamities because they are forced by poverty to live in vulnerable areas, and they have very few assets to fall back on, and no insurance. When the vulnerability to such natural calamities is taken into account, over 400 million extra people are estimated to live in poverty, with more than half of them being in China.

All things considered -- the higher poverty line, higher food prices and natural calamities -- some 50% of Asians were living in poverty in 2010 (instead of 21%). This means that there has been no decline in poverty rates over the previous decade, with the actual number of poor Asians increasing from 1.6 to 1.8 billion over this period, instead of 733 million without these adjustments.

In sum, Asia will not eliminate all extreme poverty by 2030 as some Pollyannas predict. Moreover, economic growth alone will not eradicate poverty. Growth is necessary, but not sufficient. Government action is necessary to help poor people cope with natural calamities, and help ensure the security of food supply.

## Multidimensional poverty

More fundamentally, monetary measures of poverty, as useful as they be, will never capture the full depth and nature of poverty. As Nobel prize-winning economist Amartya Sen has argued "Human lives are battered and diminished in all kinds of different ways". For example, you may have \$2, \$3 or even \$5 a day to support your life, but you may not have access to clean drinking water or even a toilet. You may not have a nearby school for your children or a medical service, or even energy to refrigerate or cook your food.

In other words, poverty is a multi-dimensional phenomenon and poor people can suffer from a vast array of deprivations, which are not captured by monetary measures of poverty. This is why the Oxford Poverty and Human Development Initiative has devised estimates of "multi-dimensional poverty" based on indicators for health, education and basic needs like electricity, sanitation, water, flooring, cooking oil and assets.

In some countries, the state is very effective in providing these services and opportunities to its citizens, and multidimensional poverty can even be lower than monetary measures of poverty. This is the case for China, the Philippines, Sri Lanka and Vietnam.

But there are too many cases where a weak and ineffectual state does not provide such services. Thus multidimensional poverty can be higher than monetary measures, meaning that monetary measures underestimate real poverty, such as in the cases of Bangladesh, Cambodia, India, and Mongolia.

Bangladesh's greatest deprivations are cooking oil, flooring, and sanitation. For Cambodia, they are cooking oil, electricity and sanitation. While for India, they are cooking fuel, sanitation, and flooring. And for Mongolia, they are cooking fuel, sanitation, and drinking water. Even in the better performers, people have some important deprivations, such schooling and cooking fuel in China, cooking fuel and child mortality in the Philippines, cooking fuel and nutrition in Sri Lanka, and cooking fuel and sanitation in Vietnam.

### Other aspects of Asian poverty

Women make up two-thirds of Asia's poor, according to the UNDP, which means that women are twice as likely as men to suffer from poverty. And poverty is continuing to rise among Asia's women, not only because they have lower incomes, but because of discriminatory attitudes which result in lower capabilities and opportunities. Asia has one of the world's worst gender gaps, with Africa being the only continent behind it, based on a combination of indicators covering economic participation, educational attainment, health and survival, and political empowerment. Asia is the worst region in the world for women's health and survival relative to that of men.

In short, the benefits of Asia's very rapid growth are not being shared in the region. And naturally the adverse situation of Asia's women trickles down to many children, except for a family's eldest son who is usually spoiled rotten. Child poverty is a particularly

important issue in countries like Laos, Mongolia, the Philippines and Vietnam where one-third or more of the population are children.

It may seem surprising that the state of poverty is not so rosy in Asia. Many Western tourists are dazzled by the bright lights of Shanghai, Singapore, Hong Kong and Bangalore. But poverty is substantially a rural phenomenon in Asia, with more than half of Asia's population living in the countryside.

The rural poor represent over three-quarters of Asia's total poor population. Many of the rural poor are subsistence producers, family farmers or landless agricultural producers. And the poverty of urban slums is usually hidden away from tourists, despite the new fad of "slum tourism" in cities like Mumbai and Jakarta. To reduce rural poverty requires improving agricultural productivity, rural infrastructure, and access to social services.

Another group prone to poverty is the disabled, who may account for one in five of the world's poorest, according to some estimates. Disability can both increase the risk of poverty, and poverty may increase the risk of disability. The disabled suffer from negative stereotyping and discriminatory attitudes and behaviour, and very little government support in Asia.

Overall, Asia is both home to the world's largest population, and the world's largest number of poor people, over 60% on both scores. And Asia's most populous countries -- China, India and Indonesia -- account for the lion's share of Asia's poor people, around 75%. The Asian countries with the highest rates of poverty are Nepal, Bangladesh, Timor-Leste, India, Laos and Cambodia.

#### Poverty and inequality

The power of economic growth to reduce poverty is greatly compromised by Asia's winner-takes-all societies, where the gap between rich and poor is large and widening, especially in China, Sri Lanka, Indonesia, Hong Kong, Laos and Singapore. Some of Asia's richest economies like Hong Kong and Singapore have the highest levels of inequality in the region.

The rise in Asian inequality these past two decades has been much greater than in most other emerging economies, and also much greater than Asia's previous record of equitable growth, according to IMF research. Rising inequality has dampened the impact of growth on Asia's poverty reduction.

Asian economic growth now has a lower impact on poverty than it did in the past, with a sharp decline occurring between the first half and second half of the 2000s, especially in China. Indeed, the glory days of poverty reduction in China were in the 1980s and 1990s. And in India, economic growth has only had a very modest impact on poverty reduction, because its service sector driven growth has been of greatest benefit to higher skilled workers.

There are many factors which are behind this inequality, like technology and policies which favor export industries. But in the poster-child economy of China, it is clear that major factors are corruption and Communist Party connections.

Cleaning up governance could make great contributions to reducing inequality and poverty. There are also many other things could be done to address inequality, such as: increased government spending on health, education, and social safety nets; labor market reforms such as minimum wages to boost the labor share of national income; and reforms to make financial systems more inclusive.

Concluding comments

Over the past several decades, Asia has had a remarkable record in reducing poverty, thanks to its very strong economic growth. But growth is not THE answer to poverty as claimed by Fareed Zakaria.

Government still has an important role to play in providing infrastructure, and nowhere more than in Zakaria's birthplace of India where the state of sanitation (toilets), clean water and systems for food distribution are simply appalling. Government also has a critical role in tackling discrimination such as against women, indigenous peoples, lower castes and many more such groups. Again India is one of the worst offenders in terms of discrimination. And government must keep its own house in order, and minimize corruption which is contributing to income inequality and dampening poverty reduction.

We did not need China's Communist Government to teach us the benefits of capitalism for reducing poverty, as Zakaria claims. Capitalism needs to be tempered by good governance. In fact, perhaps China's most powerful lesson is the impact of a single party system, without freedom of the press, or freedom for civil society and other activist groups. This results in massive abuses of power that contribute to income inequality and reduce the impact of growth on poverty reduction.