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Short Article

Poverty in Asia and the Pacific: A Macroeconomic Perspective

It is commonly accepted that poverty and poverty reduction strategies go beyond economic issues to include social, political and cultural aspects. However, both theory and empirical evidence indicate that macroeconomic policies do affect poverty. A decades-long study of eighty countries revealed that the income of the bottom one fifth of the population rose commensurately with the overall growth of the economy as defined by per capita GDP (Ames *et al.,* 2001). The study further stipulated that growth is the single most important factor influencing poverty reduction achieved through macroeconomic stability.

Macroeconomic stability is a necessary condition for domestic and foreign investment, and hence economic growth. Furthermore, instability through high inflation, for example, hurts the poor the most because the majority of them hold their assets in cash and are less able to protect their income from the increases in the general price levels. Yes, there have been reservations on the positive impact of growth on poverty, following the argument about the trade-off between growth and equity. However, empirical evidence shows the trade-off is not strongly significant. One way to minimize the trade-off is by having well-balanced sectoral development focusing on sectors dominated by the poor. For example, in many countries, the majority of the poor are in rural areas, hence emphasizing growth of the agricultural sector would be a pro-poor strategy, at least in the short run. However, the poorest of the poor still have not benefited as much as the rest of the population (Ghiva *et al.*, 2002 and Demery *et al.*, 1996). In the long run, a more diversified growth policy towards the manufacturing sector should be pursued.

Trade has been the major engine of growth in East Asia. What is unique about trade in this region is that it is driven by intra-industry trade, and trade in components and parts. Centred on China, regional trade is supported by low costs and low trade barriers between countries. In East Asia the proportion of the population living on less than US$ 1 a day declined from 457 million in the 1990s to 150 million in 2005. In other words, the region has already attained the MDG1 target. Even though this aggregate number is dominated by the dramatic decline in poverty in China, from 361 million in 1990 to 117 million in 2005, progress has been rapid in most countries (Gill *et al.*, 2007).

The following are some figures from selected Asian and Pacific countries. China had phenomenal GDP growth of 7.8 per cent in 1998 increasing to 10.7 per cent in 2006. Gross domestic investment also grew from 37.7 per cent (of GDP) in 1998 to 43.6 per cent in 2006. Inflation was very low at minus 0.8 per cent in 1998 and 1.5 per cent in 2006. Similarly exports grew from 0.5 to 27.2 per cent during the same period. This macroeconomic performance coincided with a phenomenal decline in poverty from 33.0 to 16.7 per cent during the same period, with a Gini index of 0.45 in 2001.

In contrast to China, Sri Lanka with GDP growth of 4.7 per cent in 1998 to 7.0 per cent in 2006, (presumably because of a high inflation rate – 9.4 per cent in 1998 and 13.0 per cent in 2006 – and relatively low exports) poverty increased from 3.8 per cent in 1990 to 5.6 per cent in 2002. For other countries in the region, data indicated that whenever macroeconomic performance is favourable, there is also significant improvement in poverty reduction and the Gini index.

An analysis of macro-policy and poverty would not be complete without addressing the East Asian economic crisis of the late 1990s. As a result of a less-prudently managed, pegged exchange rate pushing the economy into recession, the Thai baht became overvalued against the dollar. Coupled with capital flight by destabilizing speculation activities of foreign investors, Thailand was forced to abandon the pegged exchange rate in 1997 and replace it with a much lower one. Many firms were forced into bankruptcy because they had to make much higher interest payments. Hence, as we know it, the economy went into a deep recession. These waves of speculative attacks also spread to other East Asian countries such as Republic of Korea, Indonesia and Malaysia. The impact on poverty was staggering. In Indonesia for example, poverty was more than doubled during the economic crisis.

To conclude, indeed macroeconomic development has a fundamental impact on poverty reduction and it is an essential platform for developing policies for bringing people out of poverty. ■

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(References available upon request)

FlashBREAKING

Converting Land for Biofuel Worsens Global Warming
Joe Fargione, a founder of the Nature Conservancy, said that it does not make sense to convert land for biofuel production if we are trying to mitigate global warming, because all the biofuels we use now cause habitat destruction, either directly or indirectly. He said that converting land to grow crops used in the production of biofuels releases 17 to 420 times as much CO2 into the atmosphere as the greenhouse gas reductions that the biofuels provide by displacing fossil fuels. Strong growth in the demand for corn-based ethanol in the United States, for example, has led to the increasing destruction of the Amazon rainforest in Brazil.

WBCSD, 2008. Converting Land for Biofuel Worsens Global Warming, http://www.wbcsd.org/ (7 February 2008).

Food out of Reach
Pakistan is facing the most severe food price inflation in its history. January food prices soared over 18 per cent – the highest ever monthly increase. As a consequence the poor and vulnerable, who make up almost two thirds of the population, had to either cut non-food expenditure or consume fewer calories than required. This is a huge setback in the Government's fight against poverty. Global food inflation has resulted from surging commodity prices due to the increasing use of grains for biofuel production. The situation demands that economic managers re-think their strategy for fighting food inflation, and carefully develop effective short-term and long-term measures to deal with the problem.

Dawn, 2008. Food out of Reach, http://www.dawn.com/ (14 February 2008).

Linking Agriculture and Social Protection
Research from the Overseas Development Institute in the UK examined the links between social protection and agriculture. The research considers how social protection can help poor farmers take advantage of emerging opportunities and protect their livelihoods from risk. Social protection can work in three ways: preventing the onset of shocks and stresses; reducing or managing their impact; and enhancing the resilience of households and individuals. Links between social protection and agriculture include: social protection that is not directly connected to agriculture but impacts on it; agricultural policies to protect producers and labourers; and social protection impacts of agriculture on consumers and others. The researchers suggest approaches for the delivery of social protection.

id21, 2008. Identifying Links between Agriculture and Social Protection, http://www.id21.org/ (22 January 2008).

Biotech Crops Experience Remarkable Growth
According to a recent report by the International Service for the Acquisition of Agri-biotech Applications (ISAAA), biotech crop 'trait hectares' grew at a swift 22 per cent, to reach 143.7 million hectares, farmed by 12 million farmers globally. It is noted that if we are to achieve the Millennium Development Goal of cutting hunger and poverty in half by 2015, biotech crops must play an even bigger role in the next decade. The report suggests the current delay in timely approvals of biotech crops, such as golden rice with benefits for millions, is a moral dilemma where the demands of regulatory systems have often become the end and not the means.

ISAAA, 2008. Biotech Crops Experience Remarkable Dozen Years of Double-Digit Growth, http://www.isaaa.org/ (13 February 2008).

From Subsistence Farming to Profit: Agro-wells in Sri Lanka

Farmers in the dry areas of the district of Matale in Sri Lanka are benefiting from large, well-constructed 'agro-wells'. Soil conservation and water management are some activities of the Regional Economic Advancement Project (REAP), which was implemented from 1999 to 2007. The project was mostly funded by a loan from the International Fund for Agricultural Development (IFAD) to the Government of Sri Lanka. REAP helped the poorest farmers to construct agro-wells for irrigation purposes. Agro-wells are large wells carefully constructed from blocks and concrete for durability. They last for many years with minimal maintenance. The typical farming pattern without an agro-well is to plant the principal crop (rice in the lowlands, vegetables and cereals in the highlands) during the north-east monsoon (*maha* season) and then, secondary crops during the south-west monsoon (*yala* season). A major problem is that the *yala* rains are unreliable and a period of drought can destroy the crops in the field. Consequently, farm-based income and employment are low and concentrated into the *maha* season. Farmers in this situation merely subsist. With agro-wells, farmers have increased crop rotation and stabilized their *yala* crop, with the well providing irrigation water for periods when there is no rain. In addition, some farmers are even able to grow a crop in the dry season, something that was not possible before. With more farm produce than ever before, farmers are now making profits from their farming activities. Food varieties are added to the home meal table and others are grown commercially. ■

Based on Rural Poverty Portal, 2008. From Subsistence Farming to Profit: the Benefits of Agro-wells in Sri Lanka, http://www.ruralpovertyportal.org/ (11 February 2008).

Small Farms' Role in Reducing Poverty

The development of small farms in the Green Revolution has done much to reduce poverty. Small-scale farming has a high potential to create jobs and provide returns from labour and land. Recently agricultural development has become increasingly difficult due to the declining impact of technology, environmental degradation, and other social problems faced by farmers. The arguments for and against small farms consider issues such as efficiency, equity, poverty reduction, the application of new technology, and the existence of new marketing chains. In contrast to small farms, large farms can increase efficiency due to better access to agricultural inputs, credit and markets. Small farms, through using local labour, can stimulate the rural non-farm economy and create jobs. But they are at a disadvantage if the adoption of new technology requires considerable funds, mechanization, or high levels of education. In addition, increasingly dominant supermarkets have stricter standards for produce and delivery timetables, which small farms may struggle to meet. Where there is no indication that supporting small farmers will have significant benefits, governments should encourage and support them to move into non-agricultural activities. Where small farms can provide benefits, the policy support should: (a) ensure a stable economy, provide public goods, good governance, and intervene in food and credit markets; (b) encourage farmers to follow market demand and improve their marketing; and (c) provide inputs and services to small-scale farmers that are co-ordinated by all actors involved in agribusiness. ■

Based on id21, 2008. Can Small Farms Still Play a Role in Reducing Poverty?, http://www.id21.org/ (22 January 2008).

Biogas: Helping Poor Farmers Help the Planet and Themselves

An IFAD-supported biogas project has helped about 30,000 poor households by providing nearly 23,000 biogas tanks. China has successfully promoted the use of biogas as a source of household energy since the 1980s. In the 1990s the strategy was extended to remote communities in west Guangxi where most of the farmers do not earn enough to pay for fuel or electricity. Biogas units turn human and animal waste into a mixture of methane and carbon dioxide gases that can be used for lighting and cooking. Each household builds its own plant to channel waste from the domestic toilet and nearby shelters for animals, usually pigs, into a sealed tank. The waste ferments and is naturally converted into gas and compost. In addition to producing energy, the project has resulted in better sanitary conditions in the home. The double bonus of energy and compost motivated poor people to adopt this technology. Through the use of biogas, people's living conditions and the environment have improved, forests are protected and the labour force has more time for agricultural production. A large amount of straw, which was previously burned, is now put into biogas tanks to ferment. This further reduces air pollution from smoke and helps produce high-quality organic fertilizer. The lives of women, in particular, have been transformed by the project. They replace the time spent for fuelwood collection with money-making activities. Thousands of poor farmers across the province have done the same, contributing to a drop in rural poverty. ■

Based on Rural Poverty Portal, 2008. Biogas: Helping Poor Farmers Help the Planet and Themselves, http://www.ruralpovertyportal.org/ (22 January 2008).

Zero-poverty Becomes a Reality

Remarkably, a recent development project in China has reduced poverty rates from 90 to 1 per cent. The outstanding success has been attributed to good project management and strong government support for poverty reduction. The success of the Sichuan Integrated Development Project is all the more remarkable because of the conditions in the project area: most of the land was steep, with soil erosion, poor irrigation and low fertility, and little or no direct access to roads or electricity. Additionally literacy rates and health conditions were poor. The project, co-sponsored by IFAD and the World Food Programme, ran between 1996 and 2002. Its aim was to help poor households to improve their incomes and food security. Chinese Government initiatives throughout the region contributed to an average income growth of about 17 per cent a year. And the IFAD-supported project gave an extra boost to more than 151,000 of the poorest households, where incomes grew about 24 per cent annually in the same period. Farmers in the project area saw a fundamental shift from a situation of regular food shortages to sufficient food and adequate clothing. Agricultural production, food consumption, health, education, market access, more stable social environments, family harmony, and a perceived better environmental health, were all areas of improvement. On average, household incomes rose by 363 per cent over the six years of project implementation. The project's implementation was the key to its success. It was designed to reflect the needs, desires and capacity of the people involved. ■

Based on Rural Poverty Portal, 2008. Zero-Poverty Becomes a Reality Thanks to Effective Collaboration in Sichuan, China, http://www.ruralpovertyportal.org/ (7 February 2008).

Flash EVENTS

The 3rd International Conference on Intellectual Property in Agriculture 2008
1 – 2 April 2008
Amman, Jordan
Info:
http://www.tc-center.com/Conferences.htm

High-level Conference on World Food Security and the Challenges of Climate Change and Bionergy
3 – 5 June 2008
FAO Headquarters, Rome, Italy
Info:
www.fao.org/foodclimate/conference.html

Poverty Reduction and Social Protection Conference 2008
19 – 21 June 2008
Bangkok, Thailand
Info:
http://www.tomorrowpeople.org/index.php?option=com_content&task=view&id=29&Itemid=72

The International Conference on Sustainable Agriculture for Food, Energy and Industry 2008
2 – 6 July 2008
Sapporo, Japan
Info:
http://www.sgp.hokudai.ac.jp/ICSA2008/index/introduction.html

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Paper Review

The World's Most Deprived: Characteristics and Causes of Extreme Poverty and Hunger

Akhter U. Ahmed *et al.*, 2020 Discussion Paper No. 43, IFPRI, Washington, D.C., USA, 2007, ISBN: 0-89629-770-5.

This discussion paper is worth reading since it presents the results of a study undertaken for a policy consultation process focusing on the world's poor and hungry people. The study was co-ordinated by International Food Policy Research Institute. The paper discusses three important topics: location and trends of poverty and hunger; identifying the poor and hungry; and causes of persistent poverty and hunger. Before discussing these important topics, the authors first divide the population living on less than one dollar a day into three categories: 1) subjacent poor – those living on between $0.75 and $1 a day; 2) medial poor – those living on between $0.50 and $0.75 a day; and 3) ultra poor – those living on less than $0.50 a day. They found that 162 million people in the world live in ultra poverty, and Sub-Saharan Africa is home to more than three quarters of the world's ultra poor. In contrast, most of Asia's poor live just below the dollar-a-day line and only a small minority of the population is ultra poor.

In this paper, progress in reducing hunger was measured with the help of the Global Hunger Index (GHI) – an index designed to capture three dimensions of hunger: lack of economic access to food; shortfalls in the nutritional status of children; and child mortality. The findings show that most hunger hot spots today are in Sub-Saharan Africa and South Asia. Note that while poverty and hunger overlap, they are not identical.

The authors also found that the poorest are those from socially excluded groups, those living in remote areas with little education and few assets, and, in Asia, the landless. Several characteristics of the poorest and hungry presented in this paper are as follows: a) despite a global trend of poverty shifting towards urban areas, the incidence of poverty is still higher in rural areas; b) the poorest and most undernourished households are located furthest from the roads, markets, schools, and health services; c) adults in ultra poverty are significantly less likely to be educated, be they male or female; d) in all study countries, children from poorer families are less likely to go to school; e) there does not seem to be a uniform pattern of higher landlessness among the poor, though the relationship varies among Sub-Saharan Africa, Latin America and Asia; and f) each of the 20 countries studied has minority and other subgroups that have consistently higher prevalence of poverty and hunger, especially in Asia.

Having identified the characteristics of the poorest and the hungry, the authors present the three main causes of persistent poverty and hunger that they summarize from other studies carried out over the last few years. First, the location of a household – its country of residence and its location within the country – has a large impact on potential household welfare. Second, the coincidence of severe and persistent poverty and hunger indicates the presence of poverty traps – conditions from which individuals or groups cannot emerge without the help of others. Three commonly found causes of poverty traps are the inability of poor households to invest in the education of their children, the limited access to credit for those with few assets, and the lack of productive labour for the hungry. Third, the systematic exclusion of certain groups from access to resources and markets increases their propensity to be poor.

The report concludes by suggesting several interventions that are essential to helping the poorest move out of poverty: a) improving access to markets and basic services, especially for those in the most remote rural areas; b) providing insurance to help households deal with health crises; c) preventing child malnutrition; d) enabling investment in education and physical capital for those with few assets; and e) addressing the exclusion of disadvantaged groups. The report also highlights the importance of improving our knowledge and understanding of who the world's poorest and hungry are. It is only with carefully collected, context-specific, and time-relevant data that it is possible to correctly design, monitor, and evaluate policies and interventions for improving the welfare of the most deprived.

The main constraint in tackling these above mentioned poverty problems, however, is funding. Given limited financial resources it would be unlikely that a developing country can implement the interventions without international assistance and allocating the limited financial resources efficiently and effectively. These issues should be seriously discussed globally in order to significantly reduce poverty – a challenge that is set out in one of the Millennium Development Goals. ■

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