Poverty Reduction Strategies– Lessons from the Asian and Pacific Region on Inclusive Development

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The Asian and Pacific region has made remarkable advances in reducing poverty. This paper surveys the main contributions that attempt to explain the causes behind the region's success in poverty reduction, and assesses the impact of inclusive development policies pursued. Looking broadly at the different experiences of East and Southeast Asia on one hand and South Asia on the other, the paper classifies the explanations provided in the literature for the poverty reduction experience of the region into two groups: those explaining the phenomenal increase in economic growth and its relation to poverty reduction; and those examining the policies that have contributed directly to fostering inclusiveness of the development process.

I. INTRODUCTION

The Asian and Pacific region has made one of the most remarkable advances in reducing poverty among all the developing regions of the world. In the early 1970s more than half of the region's population was poor. In 1990, this had fallen to a third, measured on $1-a-day poverty, but this still amounted to 900 million people. By 2002, the poverty incidence of the region had fallen further to 21.5 percent, and the number of the poor had declined to 688 million. Going by $2-a-day poverty, the progress between 1990 and 2002 has also been significant although not as remarkable: a drop in the incidence from about 75 to 60 percent while the numbers of the poor fell from a little over 2.0 billion to 1.9 billion.

Although this still represents in absolute number about two thirds of the world's poor, by any standards this has been a major achievement on the income poverty front. But poverty is now being increasingly assessed holistically in all its essential attributes, income as well as nonincome. On the latter, the progress of the Asian and Pacific region is less exemplary, although significant advances have occurred. To take just two key indicators, literacy levels have increased from 47.1 percent in 1970, to 67.5 percent in 1990, and 77.2 percent in 2002; while life expectancy has improved from 54.3 years, to 63.7 years, to 66.6 years in this period. However, not only has progress on the nonincome indicators been slower than on income poverty, but also, as in the case of income poverty, there

Shiladitya Chatterjee is Head of the Poverty Unit, Asian Development Bank. An earlier version of this paper was presented at the 2005 Annual Meeting of the Inter-American Development Bank in Okinawa, Japan. The author is indebted to Rana Hasan, Nimal Fernando, Brahm Prakash, Steven Tabor, and an anonymous referee for comments and suggestions on this paper, and to Anicia Sayos for help with the data. The views expressed in this paper are those of the author and do not necessarily represent those of the Asian Development Bank.

are very wide differences in achievements of the different subregions of the Asian and Pacific region.

This paper surveys the main contributions that attempt to explain the causes behind the region's success in poverty reduction and assesses the impact of inclusive development policies pursued. In this context, it is important to begin with a definition of the term "inclusive development." This is defined here as a development process that generates broad-based participation, and specifically reduces poverty and social exclusions.[1] Poverty is considered holistically covering both income and nonincome dimensions. The success of an inclusive development strategy can be gauged therefore by the extent to which such a strategy is able to reduce poverty and social exclusions. Given that the Millennium Development Goals (MDGs) do address income poverty and also some of the most crucial dimensions of nonincome poverty, and have now universal acceptability among countries, one measure of the success of inclusive development is how much progress is achieved on attaining the MDGs. However, the MDGs do not address several important dimensions of deprivations such as those due to caste, racial category, or minority status. Inclusive development would require the improvement of the lives, in terms of reduction of poverty, among these groups also, wherever their deprivations are significant.

It has to be noted, however, that experiences across the region are not uniform and that the region can be segregated into at least two distinct geographical areas in terms of experiences: East and Southeast Asia on one hand, and South Asia on the other. In the exposition below, an attempt has been made to compare the experience of these two subregions with that of other developing regions of the world. Broadly, the explanations provided in the literature for the poverty reduction experience of the region can be classified into two groups. First, those that explain the phenomenal increase in economic growth that occurred and the relationship of that growth to poverty reduction. Second, there have been certain policies that have been pursued that have contributed to fostering inclusiveness of the development process and in reducing poverty.

The outline of this paper is as follows. Section II addresses the first group of factors referred to above: the relationship between growth and poverty reduction and the role that inequality is playing in this regard. It also reviews the general explanations for factors responsible for growth and why some growth processes in the region have been more inclusive than others. Section III looks at policies favoring inclusive development and their impact on poverty. The paper ends with a brief Section IV, which provides some general conclusions.

[1]See Sen (2000) for a comprehensive analysis of poverty, capability deprivation and social exclusion. This paper follows the broad concept of poverty presented in that paper.

II. GROWTH AND POVERTY

A. Growth, Distribution, and Income Poverty

Any analysis of the Asian and Pacific region's achievements in poverty reduction and inclusive development must focus on the significant success that many countries in the region have experienced with respect to rapid increases in the growth of per capita incomes. Of the many factors that are responsible for success in income poverty reduction, economic growth is a dominant factor.

That a strong relationship exists between growth and income poverty reduction has been the subject of considerable work undertaken by ADB and the World Bank.[2] A recent ADB study (ADB 2004a) found, for example, that a 1 percent increase in per capita income growth led to a 2 percent decline in income poverty in a sample of Asian developing countries. Interestingly, the study found that for a larger sample including 51 developing countries around the world, the relationship is less strong, with a 1 percent per capita income growth responsible just for a 1.5 percent decline in poverty incidence.

The greater impact of growth on poverty reduction in Asia is attributed to several factors including, importantly, lower initial inequality in distribution of income. Table 1 shows income distribution in selected large Asian countries (Bangladesh, People's Republic of China [PRC], India, Indonesia, Pakistan, and Philippines) compared to selected major Latin American and Sub-Saharan African countries. The Asian countries have significantly lower income inequalities than Latin American and Sub-Saharan Africa counterparts. This implies that both growth and inclusiveness (in terms of more favorable income distribution) may have played an important role in reducing income poverty in Asia.

The growth–distribution–poverty nexus is further explored in Table 2, which shows data on the decomposition of poverty reduction into income growth and income distribution changes in selected countries in Asia between the late 1980s to early 2000s. The table reveals many interesting features of the income poverty reduction process in Asia. First, growth has undoubtedly been the primary driving force in poverty reduction, not improvement in distribution of income. In fact the Asian experience has been that growth has made income distribution less favorable. However, the extent of the maldistribution caused by growth has not detracted from its overall effect. Second, distribution changes in some cases did in fact reduce the impact of growth significantly. This is particularly significant for Bangladesh (1991–1995), rural PRC (1996–2001), urban India (1983–1987), and Philippines (1994–1997).

Given these broad trends, we need to further investigate what factors and policies were important in promoting Asia's growth in per capita incomes; and responsible for making the growth process more inclusive in nature, thereby having a greater impact on income poverty.

[2]See for instance Dollar and Kray (2000), which sparked off a spate of studies.

Table 1. **Gini Coefficients, Selected Countries, Various Years**

Economy	Initial		Later	
	Gini Coefficient	Year	Gini Coefficient	Year
East Asia				
PRC—Rural	30.57	1990	36.33	2001
Southeast Asia				
Indonesia	33.12	1987	34.3	2002
Philippines	41.04	1985	46.09	2000
Thailand	45.22	1981	43.15	2000
Viet Nam	34.91	1993	37.63	2002
South Asia				
Bangladesh	26.92	1985	31.79	2000
India—Rural	28.59	1993	28.11	1999
India—Urban	34.34	1993	35.00	1999
Pakistan	33.35	1987	32.99	1999
Sri Lanka	32.47	1985	34.36	1995
Latin America				
Brazil	57.57	1981	59.25	2001
Chile	57.88	1989	57.61	2000
Mexico	46.26	1984	54.93	2000
Sub-Saharan Africa				
Kenya	44.54	1994	42.5	1997
Nigeria	38.68	1985	50.56	1997

Source: *Key Indicators 2004* (ADB 2004).

B. Growth and Nonincome Poverty

While growth has had a powerful impact on income poverty reduction, there has not been much investigation of its impact on the nonincome dimensions of poverty. As noted in the introduction, the Asian and Pacific region's progress in reduction of nonincome poverty has not been as remarkable and remains a concern in the region. For instance, the evidence in the recent Report of the Millennium Project (United Nations 2005) indicates that in 2005, of the total number of people in the world, Asia is home to as much as 71 percent who have no access to improved sanitation; 58 percent who have no access to safe water; 56 percent who are undernourished; and 54 percent who are slum dwellers. Asia also accounts for 43 percent of the world's total child mortality. Many subregions of Asia have a larger problem than even Sub-Saharan Africa. South Asia, for instance, had more undernourished people, more people without access to improved sanitation, and more people living in slum conditions than Sub-Saharan Africa in 2005. East Asia had more people without access to safe water, more people without access to sanitation, and more individuals living in slum conditions than Sub-Saharan Africa in 2005. HIV/AIDS infections are likely to

become a very major issue in South and Southeast Asia, which together are projected to have nearly as many infections as Sub-Saharan Africa in 2015.

Table 2. **Decomposition of $1-a-Day Poverty in Selected Countries, Various Years**

Economy	Reference Years	Change in Poverty (percentage points per annum)	Poverty Distribution		
			Growth	Distribution	Residual
East Asia					
PRC—Rural	1990-1993	–1.77	–2.21	0.52	–0.07
	1993-1996	–4.75	–6.32	1.22	0.35
	1996-2001	0.34	–0.42	0.76	0.0
Southeast Asia					
Indonesia	1996-1999	0.36	2.65	–2.05	–0.24
	1999-2002	–2.58	–3.50	1.21	–0.29
Philippines	1994-1997	–1.53	–2.77	1.28	–0.04
	1997-2000	0.57	0.56	0.00	0.01
Thailand	1992-1996	–1.48	–0.92	–0.67	0.11
	1996-2000	0.45	0.56	–0.03	–0.08
Viet Nam	1993-1998	–4.21	–4.23	0.14	-0.12
	1998-2002	–1.32	–1.75	0.68	–0.25
South Asia					
Bangladesh	1991-1995	–1.72	–3.36	1.94	–0.29
	1995-2000	1.41	1.59	–0.17	–0.01
India—Rural	1983-1987	–2.13	–2.49	0.42	–0.06
	1987-1993	–0.47	–0.18	–0.28	–0.01
	1993-1999	–1.19	–1.18	–0.04	0.03
India—Urban	1983-1987	–0.24	–0.96	0.73	–0.02
	1987-1993	–0.93	–0.73	–0.21	0.01
	1993-1999	–0.61	–0.98	0.35	0.03
Pakistan	1987-1993	–2.6	–2.84	0.22	0.02
	1993-1999	–1.38	–0.97	–0.35	–0.06
Sri Lanka	1985-1990	–1.1	–0.68	–0.53	0.11
	1990-1995	0.49	–0.09	0.62	–0.04

Source: *Key Indicators 2004* (ADB 2004).

Some preliminary studies have shown that growth does impact positively on the nonincome MDG indicators (ADB forthcoming). However, in the less developed countries that rely more on public investments for provision of basic services, the resources that growth makes available have to be combined with actual public interventions toward basic services for the growth–nonincome poverty reduction nexus to be realized.

C. Causes of Growth

The Asian experience is not uniform. Historically, it was East Asian economies that first began experiencing rapid economic growth from the 1970s, which was characterized as the "economic miracle." It was much later—in the 1990s—that this rapid growth experience spread to South Asia. However, despite the difference in timing, certain aspects were similar.[3]

1. Growth of Factors

High growth everywhere in the region has certainly been responsible in large measure on growth of factors, principally expansion of physical and human capital, whose contribution has been augmented by growth in productivity. The World Bank's (1993) *East Asia Miracle* study estimated that growth of factors was responsible for two thirds of growth in the miracle economies, while growth of total factor productivity (TFP) contributed one third (see also Young 1995 and Pack 2001). The latter is the result of transformation of institutional structures that included increased openness, a conducive policy environment for the functioning of private enterprise including deregulation, and development of financial markets and infrastructure services. These factors undoubtedly raised the efficiency of factors, enabled technological progress, and contributed to growth.

Supporting the rapid capital accumulation that was responsible for growth and expansion of Asian economies was the high savings rates in these economies—among the highest experienced in any of the developing regions of the world. It has been estimated (ADB 1997) that by 1990, the savings rate for all developing Asia was about 8 percentage points above the rest of the world. High savings allowed the region's high investment rates to be supported without recourse to much external borrowing—an important factor that differentiates the experience of the Asian and Pacific region from other developing regions of the world. Rates of saving have generally been higher in East and Southeast Asia and somewhat lower in South Asia. The difference has been significantly due to government savings, which for South Asian economies has been very low. The savings and investment rates of selected developing economies in 1990 and 2002 are shown in Table 3.

Reasons that are attributed to the higher savings rate in the region are demographic composition with low dependency ratios, allowing higher private savings; and in the case of East and Southeast Asia prudent fiscal policies (low public sector borrowings and losses of state enterprises) that enabled high public savings.

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[3]The causes listed here reflect the broad consensus in the literature that is shared by the author. The paper does not intend to enter the broader theoretical debate about whether it is possible to explain growth given the complexity of the growth process, or whether cross country regressions are meaningful, such as discussed by Kenny and Williams (2001).

Table 3. **Savings and Investment Rates, 1990 and 2002**

Region	Gross Domestic Savings, (% of GDP)		Gross Capital Formation, (% of GDP)		Gross Foreign Direct Investment, (% of GDP)	
	1990	2002	1990	2002	1990	2002
East Asia and Pacific	34.29	36.78	33.57	32.16	1.74	4.06
South Asia	19.78	20.22	22.80	21.62	0.08	0.73
Latin America and Caribbean	21.46	21.54	19.37	18.76	0.87	3.98
Sub-Saharan Africa	18.90	16.89	17.35	17.75	0.97	2.16

Source: *World Development Indicators* (World Bank 2005).

Asia's high savings rates also enabled high rates of investments as shown in Table 3. These in turn were prompted by the climate for investments fostered by growth, and a supportive government policy that created openness, enlarged export markets, and built a conducive environment of low inflation and macroeconomic stability. Foreign direct investments in such economies also played a significant role. However, investment rates, mirroring lower savings rates and lower FDI, were substantially lower in South Asia compared to East Asia and the Pacific. An important point to note is that the quality of investments made has also tended to promote long-term growth. Thus, investments in infrastructure, which are known to have higher returns than investments in general, have constituted an important part of total investments in Asia. In 1996–2000 for instance, investments in infrastructure in East and Southeast Asian countries totaled $120 billion annually, which constituted about 20 percent of total expenditure on investments in these countries.

That infrastructure has high social returns and contributed significantly to Asia's growth performance is borne out by several studies. One class of studies has found that developing countries' rates of return to infrastructure are higher than for capital investment in general. Another set of studies have found that public expenditure on transport and communications significantly raised economic growth.[4]

Most investments in infrastructure have, however, been publicly funded, and private investments have remained small. This means that governments have played an important role in utilizing public savings profitably. The lower government savings in South Asia compared to East and Southeast Asia have also led to lower public expenditures on infrastructure and contributed to lower overall spending on infrastructure investments. However, as the infrastructure needs of the region are huge, future growth in infrastructure provision will require more private sector participation. This, in turn will require greater

[4]For the first category of arguments see Canning (1999), Fernald (1999), Demetriades and Mamuneas (2000), and Roeller and Waverman (2001). For the latter group of studies see Easterly and Rebelo (1993), and Miller and Tsoukis (2001).

attention to improving the regulatory environment, enforcement of property rights, and capital market development.

In addition to increased spending on physical investments, Asia has paid attention to investments in human capital. Human capital promotes growth by augmenting labor productivity. Equally important, if investments in human capital are designed as basic services targeted to the poor, such as basic health and education, then they create opportunities for the poor who lack physical assets to acquire human capital and tends to correct the imbalance in physical asset distribution. It also enables the poor to better participate in development. Hence such investments are powerful instruments for achieving inclusiveness. Given this inclusiveness dimension, the role of human capital is elaborated in Section III.

2. Total Factor Productivity Growth

Significant productivity increases in factors along with growth of the factors themselves is also generally accepted as a major contributor to Asia's success in generating high growth.[5] Table 4 gives an idea of large increases in the East Asian economies in both capital per head and TFP. Although there is a range of opinion about the importance of TFP's contribution to growth in Asia, it is generally acknowledged that it did play a significant part.

Table 4. **Sources of Growth, Selected Regions, 1960–1994**
(percent per year)

Region	Output per Worker	Contribution of		
		Physical Capital	Education	TFP
East Asia	4.2	2.5	0.6	1.1
South Asia	2.3	1.1	0.3	0.8
Latin America and Caribbean	1.5	0.9	0.4	0.2
Sub-Saharan Africa	0.3	0.8	0.2	-0.6

Source: Bosworth and Collins (1996).

Although the TFP debate has resulted in a wide variety of different estimates as to its contribution to growth in the Asian and Pacific region, mainly due to the difficulty of estimating capital and human capital and problems of segregating technological progress embodied in capital and labor themselves, there is general recognition about its importance in the region's growth.

[5]There is a whole body of literature on the contribution of TFP and growth of factors. This ranges from those who accept the neoclassical growth model but find difficulties in the specification of the model for assessing TFP (such as Nelson and Pack 1999), to the adherents of the Cambridge school who reject the neoclassical model itself on the problems associated with capital aggregation and therefore any growth accounting based on it. Surveys may be seen in Felipe (1999) and Felipe and McCombie (2003). This paper does not intend to enter into these controversies or to assign any particular value to the attribution of growth to either factor productivity or factor growth but merely to state that the general consensus in the literature is that both have been important.

Growth in TFP could be due to several causes. The first general set of factors relates to technical progress. Also responsible are better utilization of factors through institutional changes, a new line of argument that is becoming increasingly cited. The two are obviously interlinked. The Green Revolution was brought about to a great extent through the successful absorption and adaptation of new technology in agriculture. Public support through creating favorable institutions and extension services made this possible. Pack (2001), investigating causes of transfer and absorption of technology to industry in East Asia cites, for example, increased openness that forced increased cost cutting and acquisition of more efficient technology; public policy that fostered a climate of inflow of FDI that embodied advanced technology; and policies that nurtured growth of technical education that facilitated acquisition of new technology. Rodrik (2004) in a recent paper highlights the importance of concerted and coherent industrial policy in East Asia as compared to Latin America that made a substantial difference in industrial growth. He highlights the institutional arrangements needed for a successful industrial policy.

An ADB study[6] on causes of differences of growth rates between East and South East Asia and some selected regions of the world is extremely instructive in this context. Studying growth in the period 1965–1990, the study concludes that the degree of openness of the economy and quality of institutions created were responsible for explaining as much as 68 percent of the lower growth in South Asia compared to East and Southeast Asia in this period. In the case of Sub-Saharan Africa and Latin America these two factors were responsible for about 40 percent of the lower growth in these regions.

It is interesting to note that the largest South Asian country, India for instance, undertook substantial economic reforms in the period immediately following the period of the above study, starting from 1991. The degree of openness given by share of exports in GDP for instance, increased from 3.6 percent in 1970 to 14.5 percent in 2003 (Table 5). India also undertook major industrial deregulation, freed up foreign investments, and undertook macroeconomic stabilization measures. These factors have undoubtedly played a key role in increasing India's growth.

[6]See ADB (1997); details in background paper prepared by Radelet, Sachs, and Lee (1997).

Table 5. **Exports of Goods and Services (% of GDP)**

Economy	1970	1980	1990	2000	2003
East Asia					
PRC	1.8	7.6	17.5	25.9	34.3
Southeast Asia					
Indonesia	13.5	34.2	25.3	42.9	31.2
Philippines	21.6	23.6	27.5	55.4	48.3
Thailand	15.0	24.1	34.1	66.8	65.6
Vietnam	..	..	36.0	55.0	59.7
South Asia					
Bangladesh	8.3	5.5	6.1	14.0	14.2
India	3.6	6.3	7.1	13.9	14.5
Pakistan	7.8	12.5	15.5	16.3	20.5
Sri Lanka	25.5	32.2	29.2	39.0	35.8
Latin America					
Argentina	5.6	5.1	10.4	10.9	25.0
Brazil	7.0	9.1	8.2	10.7	16.9
Mexico	7.7	10.7	18.6	31.0	28.4
Sub-Saharan Africa					
Congo, Dem. Rep.	15.5	16.5	29.5	22.4	18.9[a]
Kenya	29.8	27.9	25.9	26.2	24.8
Nigeria	8.4	29.4	43.4	53.3	50.0

[a]2002 data.
Source: World Bank (2005).

D. Decline in Population Growth

Ultimately it is not aggregate growth that matters in increasing welfare but per capita growth, which is reduced as a result of high population growth. The latter can also affect growth indirectly. Developing countries generally facing rapid population growth are likely to initially face increased dependency ratios leading to low savings.[7] Most high-growth Asian economies have managed to successfully control the growth of their populations (Table 6). In the PRC the population growth rate fell from 2.76 to 0.70 percent between 1970 and 2003. Similar success has been achieved by Indonesia, Thailand, and Viet Nam. In

[7]In the long run, however, countries that reduce their population growth rates will face aging populations, and the dependency ratio will again become adverse compared to economies able to control populations at a later stage that may have younger population compositions and higher employment ratios. The impact of population growth on GDP per capita is understood easily by considering the simple decomposition of per capita GDP given by $(Y/P)=(Y/L)$ x (L/P) where (Y/P) is GDP per capita, (Y/L) is labor productivity, and (L/P) is the employment ratio. Rapid population growth immediately lowers the employment ratio and without any increase in labor productivity will lead to falling per capita GDP. In the long run, however, if younger -population countries are able to employ the new entrants into the labor force, the employment ratio could rise, contributing positively to per capita GDP and savings.

South Asia progress has been slower, thus contributing to slower growth in gross domestic product (GDP) per capita. In countries such as India, opposition to the initial aggressive population control policies had slowed their acceptance, requiring a more participatory approach, although this notwithstanding, reduction in population growth from 2.3 to 1.5 percent between 1970 and 2003 is not unremarkable. In the Philippines, religious beliefs have similarly required approaches that did not hurt sensibilities and not much progress has been made in controlling rapid population growth.

Table 6. **Annual Population Growth, Selected Economies (percent)**

Economy	1970	1980	2000	2003
East Asia				
People's Republic of China	2.76	1.25	0.71	0.62
Southeast Asia				
Indonesia	2.37	2.07	1.32	1.34
Philippines	2.87	2.63	2.31	1.93
Thailand	3.03	2.18	0.80	0.65
Viet Nam	2.26	2.12	1.29	1.10
South Asia				
Bangladesh	2.58	2.49	1.73	1.74
India	2.31	2.25	1.68	1.49
Pakistan	3.01	2.91	2.41	2.41
Sri Lanka	2.07	1.43	1.41	1.18
Latin America				
Argentina	1.55	1.51	0.89	0.80
Brazil	2.48	2.28	1.23	1.20
Mexico	3.20	2.48	1.42	1.45
Sub-Saharan Africa				
Congo, Democratic Republic	2.83	3.00	0.60	3.01
Kenya	3.40	4.22	2.27	1.81
Nigeria	2.74	3.09	2.40	2.43

Source: World Bank (2005).

III. FACTORS INFLUENCING INCLUSIVE DEVELOPMENT

Not all types of growth are equally poverty reducing. As we noted above, a growth process that increases inequality in income distribution can have less impact on reducing poverty or be less inclusive in nature. Also, if income distributions were severely unequal to begin with, economic growth is unlikely to raise incomes of the poor as much as the nonpoor. In other words, both initial income distribution and the nature of growth in reducing or adding to the inequality will affect how growth impacts overall on poverty.

In discussing factors that promoted inclusiveness, it may be instructive to look first at factors that contribute to increasing the impact of economic growth on poverty reduction and then on factors and policies that directly affect the poor.

A. Factors Increasing Inclusiveness of Economic Growth

1. Patterns of Growth

It has been often been argued that the sectoral composition of growth matters in determining whether growth is poverty-reducing or not. Specifically, growth relying more on the primary sector has been more inclusive in nature than growth relying on secondary and tertiary sectors.

Oshima (1993), for example, was one of the first writers to suggest this. He found that for Asian countries the Kuznets inverted U relationship between growth and inequality begins sloping downward at much lower per capita GDP levels than for the western industrialized world. The downturn in the inverted U curve occurs for Asian countries with still predominantly agriculture economies. This implies according to Oshima that agriculture led the way in inequality reduction as compared to industry in the west. It also suggests that raising rural productivity levels has been an important factor in combating poverty in these countries where poverty is predominantly a rural phenomenon. Chatterjee (1995) stresses this point also and finds by using a cross-country study that primary sector growth (given by cereals production) plays invariably a large role in explaining lower poverty levels, and that the growth of industries and services appeared not to have much of a role in explaining lower poverty levels. Lipton and Ravallion (1995, 2609) conducting a survey on this issue state that generally in the global context and in specific Asian contexts, "times and places of relatively high (growing) farm output have also featured relatively low (falling) rural poverty."

That primary sector growth has played an important role in poverty reduction has also been stressed in a more rigorous study by Ravallion and Datt (1996) using Indian household survey data. Decomposing economic growth into the sectoral components of primary, secondary, and tertiary sectors, the authors found that all the three main measures of poverty (head count ratio, poverty gap, squared poverty gap) both at the national and within the rural and urban sectors separately were influenced favorably and significantly by growth in the primary and tertiary sectors. By contrast, secondary sector growth had no discernible positive effect.

In a recent paper Hasan and Quibria (2004) confirm the Ravallion and Datt finding of role of primary sector growth for South Asia, but not of the tertiary sector. They also find that secondary sector growth played an important role for poverty reduction in East Asia but not primary sector growth. Their explanation for the difference is that East Asia had a more flexible labor policy regime, and had a higher degree of openness, which enabled a more rapid structural transformation and so faster poverty reduction through rapid growth of the secondary sector.[8]

[8]While this is an important conclusion, given that the study was for poverty reduction in the 1960–1998 period, the result for East Asia may have been due to the fact that most poverty

2. Initial Conditions

That initial inequality has an important bearing on the inclusiveness of growth has been generally accepted. But the question that is asked is, what are the factors that cause this inequality? Several authors including Ravallion and Datt (2002) have addressed this issue, and usually cite the following factors:

(i) inequality of asset distribution, particularly of land as the latter is a primary factor in agriculture, which is the mainstay of most of Asia's poor;
(ii) similarly, inequality in access to finance, which is another important factor and lack of access to it by the poor;
(iii) inequality in human capital attainments and access to basic services impacting on human capital as human capital is important in determining earning capacity;
(iv) existence of dualism in society that prevents growth in the nonfarm sector from absorbing wage labor from the farm sector including labor market rigidities, evidenced by large wage differentials existing between farm and nonfarm activities (Ravallion and Datt 2002);
(v) high productivity of the farm sector (given for example by output per hectare of land) drives up rural wages and is likely to reduce inequalities between nonfarm and farm incomes (Ravallion and Datt 2002).

Conducting an estimation using state-level panel data of initial conditions that are relevant in the Indian context for the period 1960–1994, Ravallion and Datt find that lower farm yields, greater landlessness, and poor basic education and health all inhibited ability of the poor to participate in the growth of the nonfarm sector; moreover, nonfarm economic growth was less effective in reducing poverty in states with poorer initial conditions in terms of rural development, human resources, and land distribution.[9]

3. Labor Markets and Labor-absorbing Growth

If distortions exist in the labor market, then growth may fail to be inclusive in nature. Distortions could be due to several factors:

changes studied were for the post 1970 period when structural change had already reduced significantly the importance of the primary sector in the East Asian economies. In 1980 the PRC's share of value added by agriculture in GDP, for instance, was only 25.6 percent compared to 38.1 percent for India; while share of industry was 51.7 percent in the PRC to India's 25.9 percent (ADB 2002a).

[9]A similar investigation by Balisacan (2005) using provincial panel data for the Philippines found similar conclusions as far as human resources are concerned, but the progress of the Comprehensive Agrarian Reform Program was found not to be significant owing perhaps to inefficient targeting of its benefits.

(i) labor legislation could be preventing layoffs and exits, thereby providing a large disincentive to investments in countries where such legislation continues;
(ii) minimum wage legislations could prevent rapid absorption of labor;
(iii) informal institutions such as gender-related prejudices may exist that keep women's participation low and wage differentials high; and
(iv) dualistic rigidities by raising transactions costs of labor migration could be preventing structural change from primary to secondary sectors, thus preventing rapid labor absorption into secondary sectors and delaying the Kuznets U-turn.

Considerable attention has been focused on rigidities, particularly in organized labor markets in Asia. India's lack of flexibility in organized labor markets as a result of labor laws is likely to have contributed to slow growth in organized sector employment in the entire 1980–2000 period, which grew only at around 1.25 percent per annum compared to growth of the labor force that exceeded 2 percent, although rigidities other than labor legislation such as industrial licensing also played a part. There was also a large rise in contract labor, which grew from 7 to 21 percent between 1984–1998 in the manufacturing segment of organized industry (Anant 2004). Employment in sectors other than agriculture expanded at very rapid rates in the East and Southeast Asian economies before the Asian economic crisis while in India growth of organized sector employment in these sectors was very slow. Thus between 1988 and 1997, employment in nonagricultural sectors in PRC, Indonesia, Thailand, and Republic of Korea (henceforth Korea) expanded at 5.2, 5.2, 5.8, and 3.9 percent per annually on average respectively. In India, on the other hand, such growth in the organized sectors was only at 1.0 percent in the same period. While in the postcrisis period employment absorption in the secondary and tertiary sectors in these economies slowed down somewhat, absorption rates continued to be far higher in the 1998–2004 period compared to India where a decline in organized sector employment was seen (Table 7).

Table 7. **Employment Growth in Nonagriculture Sectors in Selected Asian Economies**

	1988–97	**1998–2003**
PRC	5.24	1.33
Indonesia	5.24	0.62
Thailand	5.83	4.67[a]
Korea	3.92	2.82[a]
India	0.98	–0.87[b]

[a]1998–2004.
[b]Organized sector only.
Source: *Key Indicators 2004* (ADB 2004b).

A recent ADB (2005) study of labor markets in Asia, while confirming that labor market rigidities caused by inflexibilities resulting from labor laws are often significant in Asia, concludes that for such markets to function well and to

generate rapid employment, more than just labor market policy reform is necessary. Instances cited in the study of inflexibilities caused by labor laws include difficulties in retrenching labor such as those inherent in the Indian Industrial Disputes Act, and impact of minimum wage increases on employment in several countries. The study also cites the general absence of mechanisms that enable easy switching between jobs through social security and retraining and reskilling. The latter is essential for labor market flexibility and its absence a cause for opposition of labor groups to laws allowing retrenchment. The study also points out that more attention has to be given to other factors that prevent sufficient absorption of labor in growing economies. These include institutional reforms that would enable the large informal sector to be better integrated with the economy and enable them to convert currently financially unusable assets into productive capital;[10] and measures to reduce dualism between the modern and traditional sectors.

Given its impact on poverty, direct employment generation schemes have been attempted by several countries. A good example, frequently cited, is the Maharashtra Employment Guarantee Scheme (EGS). The scheme guaranteed every adult willing to do manual unskilled work, initially below-agricultural wages, and after 1988, minimum wages. The EGS is administered during the lean agricultural season. It was well-targeted and provided substantial employment to the rural poor. However, following the 1988 wage hike, there has been slackened employment under the scheme due mainly to the rationing of work given outlay constraints on the scheme (Ravallion, Datt, and Chaudhuri 1993). A later review of the scheme (Gaiha 2003) also confirmed that outlays were an important constraining factor in employment under the scheme and suggested that increased outlays targeted to the poorest regions will bring about a substantial impact on poverty.

Labor migration has been an important source of inclusive growth in the Asian and Pacific region. Movements of general and low-skilled labor increase incomes of the poor. In the Philippines, a large part of the remittances, which contributed about 6.5 percent of GNP in the 1999–2003 period, is the result of exports of low-skilled labor. This is true also of Bangladesh, India, Indonesia, Pakistan, Sri Lanka, and other labor-surplus economies. Regional and international agreements that can free up movements of labor can further contribute to labor-absorbing, inclusive growth in the region.

B. Policy Interventions Directly Promoting Inclusiveness

Of the various public interventions promoting inclusiveness directly, as opposed to attempts to do so through inclusive growth, access by the poor to basic factors of production such as land and capital through measures such as land reform and microfinance have been cited frequently in the literature. In addition, access to basic services for human development and public investments

[10] This is a suggestion advanced by De Soto (2001).

in physical infrastructure creation are also cited in the literature as having an important impact on poverty (see for example Lipton and Ravallion 1995). All these interventions being directed toward the poor promote poverty reduction by directly raising the income-earning capacity of the poor as well as by enabling them to better access basic services, which reduces poverty. In the following sections we look at how successful the Asian and Pacific region's experience has been in these interventions directly targeting poverty reduction.

1. Land Reform

Land reform has had mixed success in Asia. Land holdings had historically been more equal in Southeast Asia (e.g., Indonesia, Malaysia, Thailand); while PRC, Korea; Taipei,China; and Viet Nam had undertaken substantial land reforms. These had created strong initial conditions for success in poverty reduction. Where land reform was not carried out effectively (as in the Philippines) or has yet to occur, high inequity in rural incomes exist. In South Asia, which inherited a highly unequal land distribution system from its colonial past, there were attempts to introduce more egalitarian holdings through land reform, but these did not have much success except in the states of Kerala and West Bengal (Rosegrant and Hazell 2001).

In the latter case, land reform, pursued vigorously by leftist governments that have been in power in the state since the 1960s, is usually cited as a major factor in the success achieved by the state in growth of agricultural production and poverty reduction. In the period 1977 to 1994 the state achieved a growth of 4.7 percent in its rice production compared to just 1.8 percent growth in 1960–1980 while rural poverty incidence also declined from 73 percent in 1973 to 31 percent in 1999. A study by Raychaudhuri (2004) found that Operation Barga, which gave heritable rights to sharecroppers along with increased use of inputs, helped by the positive role played by village *panchayats* that had been effectively empowered through decentralization, impacted positively on yields. Political will was very important in the success of land reforms. However, in the rest of India, barring Kerala, land reform has not been successful. The Philippines is another example where land distribution continues to be highly unequal and land reform measures have been very ineffective in reducing poverty (Balisacan 2005). In most countries that could not mount effective land reform measures, a major constraint has been political opposition to land reform that governments found difficult to negotiate.

Land reform measures need not, however, be necessarily be radical in nature—such as land redistribution—to succeed. Besley and Burgess (1998) cite evidence from India that showed that in several instances second-best measures such as tenancy reforms registering tenants and providing security of tenure and affecting production relations can also raise productivity and have poverty reduction impacts. Mearns (1999) proposes reforms in promoting deregulation of rental markets, improvement in management of land records and registration,

promoting land rights of women, and strengthening civil society oversight as important ingredients for promoting access of the poor to land.

2. Access to Financial Services

Providing access to credit and other financial services to the poor by formal credit systems has had limited success in Asia. It has been estimated that across the Asian and Pacific region, no more than 30 percent of the rural population has access to microcredit from any form of microfinance institution. Reasons cited for this are (i) tying of credit to land collateral, which the poor do not often possess; (ii) high transactions costs of lending to a large number of small accounts; and (iii) problems of recovery. Rural credit programs have often failed to be properly targeted. However some of these problems have been successfully overcome through group-based lending schemes such as the Grameen Bank and Bangladesh Rural Advancement Committee initiatives in Bangladesh.[11]

Other cases where small farmers have significantly benefited from rural credit are the examples of the Bank for Agriculture and Agriculture Cooperatives (BAAC) in Thailand and the unit desa system of the Bank Rakyat Indonesia (BRI-UD). Although BAAC has been most successful in outreach covering more than 80 percent of farm families and does better in reaching the poor, BRI has been unique in that it has operated without subsidies and had covered its entire lending operations through deposits that it had generated from the rural sector, and its microfinance operation has been able to make profits. In 2003 BRI made an initial public offer domestically and overseas that was oversubscribed; the main attraction for investors appeared to be BRI's microbanking operation (Robinson 2005).

Meyer and Nagarajan (2000) identify two important problems that Asia has to overcome if it is to succeed in directing finance better to the poor. First, it is making less progress than Latin America in commercializing rural finance and microfinance owing to controlled interest rates; lack of a clear vision of market-driven financial services; and Asia-specific issues such as countries in transition, lack of infrastructure in areas of transport and communications, providing services over huge areas and heterogeneous populations. Second, the Asian financial crisis set back progress by raising issues of economic liberalization and uncertainties about regulation of financial systems including those targeting the poor. Robinson (2005) projects considerable potential for the commercial microfinance industry particularly in large and growing countries such as the PRC and India if credit subsidies and interest ceilings are removed and the political opposition is educated on the benefits of commercial microfinance. In India, commercial banks such as ICICI can take a lead by scaling up its existing rural presence. In the PRC the entire rural finance structure dominated by 30,000

[11] A recent ADBI study (Weiss 2005) found, however, that these depended heavily on donor subsidies.

rural credit cooperatives with their branches need to be reformed through financial liberalization and allowing new entry of microfinance institutions to enable effective competition.

3. Developing Human Capital

Investments in human capital have both contributed strongly to growth as well as promoted inclusiveness of that growth in the Asian and Pacific region. There is general agreement that human capital accumulation along with that of physical capital accumulation made a very large contribution to growth. The World Bank's East Asia study, for example, had estimated that two thirds of growth in the region in the 1965–1980 period could be explained by growth of physical and human capital, of which primary education growth was considered the single most important contributor, and secondary school enrolment the third important after physical investments. The remaining one third was explained by growth of total factor productivity, discussed earlier. Although there is considerable debate about these estimates and about the overall methodology of growth accounting, there is little disagreement about the major contribution that human capital accumulation has made toward Asian economic growth.

The differences in growth performance between East Asia and South Asia can also be attributed in part to differences in human capital attainment. Table 8 shows the changing educational attainments of groups of developing regions of Asia compared to others. The table amply illustrates the importance attached by Asian countries to education and the strides made. East Asian and Pacific countries had the highest primary and secondary enrolments by 1995 compared to other regions, including Latin America and the Caribbean. The Asian financial crisis disrupted this trend and caused Latin America to catch up. South Asia has still remained far behind, and has not shown much rapid growth in educational attainments, and its attainment is even lower than Sub-Saharan Africa in one important education index: adult literacy.

As far as health indicators are concerned, Table 9 is instructive. Although all regions in the Asian and Pacific region have made strides in health and nutrition over the last four decades, progress in East and Southeast Asia has been most remarkable. Improvements in South Asian health and nutrition indicators have been slow and levels achieved are significantly behind East Asia.

Table 8. **Changing Education Outcomes**

	Primary Enrollment Rate (% gross)			Secondary Enrollment Rate (% gross)		
Region	**1992**	**1995**	**2000**	**1992**	**1995**	**2000**
East Asia and Pacific	116.49	115.5	111.36	51.85	61.92	66.39
South Asia	93.47	94.28	94.81	43.05	43.37	48.04
Latin America and the Carribean	107.3	111.6	124.66	50.36	55.37	84.83
Sub-Saharan Africa	72.96	75.67	81.71	23.84	25.93	...
	Primary Pupil–teacher Ratio			**Adult Illiteracy Rate (%)**		
Region	**1992**	**1995**	**2000**	**1992**	**1995**	**2000**
East Asia and Pacific	23.91	23.73	21.67	18.81	16.75	9.79
South Asia	31.05	33.00	...	51.47	49.18	44.22
Latin America and the Carribean	26.64	…	25.83	14.16	12.91	11.4
Sub-Saharan Africa	38.87	40.14	45.14[a]	47.94	44.46	37.68

[a]2001.
… means data not available.
Source: World Bank (2005).

The sustainability of South Asia's recent high growth is likely to depend on further improving its performance on the human development side. It faces several challenges in this regard. Public expenditures on health and education are an important index of public intent and as Table 10 shows, South Asian public expenditures on social development have been generally much lower compared to East Asia, and in fact the lowest among all developing regions in the world. However, there are examples of South Asian countries that have realized the importance of human development and attempted to correct the historical low prioritization accorded to primary education and basic health compared to East Asian countries. The cases of Bangladesh's success in providing access to education for the poor and girls in the 1990s; and the case of Madhya Pradesh in India, which launched a highly successful community-based program for access to primary education and literacy on a massive scale in the mid-1990s have been showcased in several forums.[12] In both cases political commitment to prioritize attention and resources toward education stemming from a clear understanding of the critical role it plays in development has been a key factor for success. Successful communication of such a priority and its response from the community in both cases were equally important elements.

[12]The Shanghai Conference on Reducing Poverty of May 2004 highlighted these cases.

Table 9. **Health and Nutrition Trends, Selected Years**

	Life Expectancy at Birth (years)		Infant Mortality Rate (deaths per 1,000 live births)		Kilocalories/ person/day	
Economy	**1990**	**2002**	**1990**	**2002**	**1990**	**2002**
East Asia						
PRC	68.9	70.7	38.0	30.0	2,709	2,951
Southeast Asia						
Indonesia	61.7	66.7	60.0	32.0	2,628	2,904
Philippines	65.6	69.8	45.0	28.0	2,355	2,379
Thailand	68.5	69.2	34.0	24.0	2,191	2,467
Viet Nam	64.8	69.7	38.0	20.0	2,149	2,566
South Asia						
Bangladesh	54.8	62.1	96.0	48.0	2,071	2,205
India	59.1	63.4	84.0	65.0	2,318	2,459
Nepal	53.6	59.9	99.0	62.0	2,426	2,453
Pakistan	59.1	63.8	96.0	76.0	2,341	2,419
Sri Lanka	70.2	73.8	22.0	16.0	2,227	2,385
Latin America						
Argentina	71.6	74.3	25.0	16.0	2,906	2,992
Brazil	65.6	68.6	50.0	33.0	2,737	3,050
Chile	73.7	76.3	18.0	10.0	2,553	2,863
Mexico	70.8	73.6	37.0	24.0	3,074	3,145
Sub-Sahara Africa						
Congo, Dem. Rep.	51.5	45.3	128.0	129.0	2,202	1,599
Kenya	57.1	45.5	63.0	78.0	1,928	2,090
Nigeria	49.1	45.3	115.0	100.0	2,418	2,726

Sources: Life expectancy and infant mortality rates from *World Development Indicators* (World Bank 2005).
Daily calorie supply (per person) from World Resources Institute (2005).

Table 10. **Health and Education Spending as Percent of GDP, Selected Years**

	Public Health Expenditures		Total Public Spending on Education			
Region	**1997**	**2001**	**1970**	**1980**	**1990**	**2001**
East Asia and Pacific	1.62	1.86	3.15	2.51	2.88	3.21
South Asia	0.88	0.99	1.65	1.99	2.60	2.32
Latin America and the Carribean	3.20	3.35	3.12	3.40	2.72	4.492[b]
Sub-Saharan Africa	2.75	2.47	3.70	3.70	3.30	3.391[a]

[a]1999.
[b]2000.
Source: *World Development Indicators* (World Bank 2005).

The plethora of factors that need to be addressed—apart from just adequacy of financial resources alone—in attempts to rapidly scale up intervention of basic services such as education was illustrated in ADB's paper for the health sector at the 2004 Shanghai Conference on Reducing Poverty (Bhushan et al. 2004). The paper has important lessons for countries such as in South Asia that would attempt to catch up in basic services provision and achievement of the MDGs. Comparing the case of Papua New Guinea with that of Sri Lanka and Cambodia, Bhushan et al. amply illustrated that several other issues, including improved governance, institutions such as decentralized administration, capacities, and partnerships are necessary before a massive program of successful basic services provision can be delivered in an adequate scale to make a difference in a short period of time.

Promoting gender equality has been a major plank of inclusive development in the Asian and Pacific region. Gender equality contributes to growth as well as to strengthening its inclusive nature. The implications of gender discriminations on growth have been studied for example in Klasen (1999) who found that gender inequality in education and employment have a significant negative impact on economic growth and also leads to higher fertility and child mortality.[13] Table 11 shows indicators of gender disparities in major developing regions of the world. Figures for East Asia and the Pacific show high achievements in that region in gender equality by 2002 and also shows cases of several indicators having almost equaled Latin America. As in the case of other human development indicators, South Asia has continued to lag behind. In the case of women's literacy, it was also behind Sub-Saharan Africa in 2000.

Removing other forms of exclusion such as race, caste, or minority status remains a major challenge in Asia. Similar to gender, apart from the need to remove such exclusions due the intrinsic benefits that inclusiveness would generate, such forms of exclusion would cause economic inefficiencies and have implications on growth as in the case of gender discrimination. Labor market segregations caused by caste, for example, distort the labor market, prevent labor mobility, and affect overall labor productivity. While gender, being the most obvious, common, and visible form of the discrimination, finds a prominent place among the MDGs, other forms of discrimination also need to be tackled with equal effort. The Malaysian affirmative action program that helped bring in *bumiputeras* into the fold of development has been often cited. In India, affirmative action policies have been in place in the constitution since 1950 for scheduled castes and tribes. A new affirmative action policy extended benefits to other backward classes in 1990. While these measures have obviously benefited large numbers of deprived classes, very few studies have analyzed their implementation record, and implications on equity and efficiency.

[13]Klasen argues that gender inequality in educations impacts on growth through, among others, the "Selection–Distortion" factor, which enables less capable boys than girls to get an education; through "Direct Externality" factor, which reduces female education that has high positive externalities such as on education and health of children; as well as through the "Indirect Externality" factor working through demographic effects.

4. Inclusive Infrastructure Investments

Public interventions in physical infrastructure have played an important part of investments in Asia as we have seen. Have they also promoted inclusive growth? While the contribution of infrastructure to augmenting an economy's productive capacity is well known, its impact on poverty reduction is considered mainly to be indirect, working through the poverty reduction effects of growth. However, there is increasing realization that infrastructure can also directly facilitate the access of the poor to basic services and help to increase their income-generation capacities. This was investigated by Chatterjee et al. (2004).

Chatterjee et al. draws on findings from country case studies from Shaanxi province in the PRC, Gujarat state in India, and Thailand; and ADB's impact evaluation studies in roads and electricity. The country case studies examined poverty reduction impacts at the community and household level. The impact evaluation studies focused on impacts of ADB projects in the roads and electricity sectors. Despite differences in the underlying methodology, both studies show similar results that reinforce each others' findings. An important conclusion is that under favorable circumstances, some of which can be influenced by public policy, infrastructure projects can assist significantly and directly in poverty reduction.

Table 11. **Gender Disparities**

Region	Life Expectancy at Birth (years)						Literacy Rate, Adult Total (% of people ages 15 and above)					
	1970		1990		2000		1970		1990		2000	
	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male
East Asia and Pacific	60.01	58.15	68.86	65.59	70.77	67.29	42.57	79.81	71.52	88.20	85.96	89.87
South Asia	48.10	49.56	58.67	58.32	63.11	61.79	17.76	52.33	33.82	63.95	44.18	72.65
Latin America and Caribbean	62.66	58.26	71.18	64.75	73.62	67.18	69.45	74.28	83.34	83.24	87.67	86.03
Sub-Saharan Africa	45.85	42.59	51.56	48.43	47.39	45.68	18.64	40.67	40.17	58.55	54.59	68.11

Region	School Enrollment (% of gross)											
	1970				1990				2000			
	Primary		Secondary		Primary		Secondary		Primary		Secondary	
	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male
East Asia and Pacific	..	..	16.82	30.42	116.36	124.43	41.26	52.39	110.84	111.81	..	..
South Asia	53.47	86.56	13.49	31.61	76.86	102.98	29.18	48.99	87.98	102.88	40.78	54.80
Latin America & Caribbean	106.89	109.26	27.07	28.36	104.49	106.50	51.29	45.94	122.62	126.61	88.27	81.49
Sub-Saharan Africa	42.04	60.80	3.66	9.00	67.08	81.88	20.01	26.09	76.04	87.13	..	..

Source: *World Development Indicators* (World Bank 2005).

It was found from these studies that both road transport and electricity helped reduce income poverty, with road transport improvements having a stronger impact. Access to roads reduced prices under conditions of competitive transport services provision, increased mobility, reduced labor market imperfections, enabled the poor to find better paying work, and allowed production of higher-value cash crops and supply of cheaper agricultural inputs. Rural electrification helped stimulate the rural economy and increased opportunities for off-farm employment of the poor. Use of television led to improved information on crops and contributed to improved farm productivity. Lighting allowed longer work hours. All rural infrastructure projects also contributed directly to employment of the poor. Infrastructure provision was noted to have generally contributed to increased trade and growth in countries in the regional cooperation context. The impact on nonincome poverty was also found to be significant. Roads reduced travel time and provided better access to basic education and health services. Electricity also impacted on nonincome poverty. Better lighting increased the time for studies and years of schooling. It increased safety and security and provided better medical services in rural areas.

Studies for Viet Nam on the impact of rural roads[14] confirm the inclusiveness features of infrastructure investments if properly targeted. Deolalikar (2001) found that the spatial and economic benefits of rural roads are significantly larger in poorer provinces than in richer ones. Fan, Huong, and Long (2004) compared estimates of the marginal returns in agricultural growth and poverty reduction to various types of government spending and found that road investments had the highest returns after agricultural research. Another study by Larsen, Pham, and Rama (2004) on impact of investments by sector found that investments in water and sanitation and transport have a large positive impact on poverty reduction at the provincial level, with such investments impacting poverty more in the poorest provinces. Studies by the United Kingdom's Department for International Development have also highlighted the need for an integrated road network that connects rural populations to markets, information, education, and health centers. Investments must be properly coordinated over the national, provincial, and rural road systems to achieve the needed synergies.

However, these favorable results do not take place on their own and occur only with complementary public actions. When scaling up rural infrastructure provision, several considerations have to be kept in mind. Strong poverty reduction outcomes from infrastructure projects can come about only if there is a strong pro-poor policy environment. Indications of such a policy include location of projects in areas of high poverty concentration, designing complementary interventions to increase the poverty reduction impact of infrastructure projects, creating market conditions for competitive reduction of transport prices, and

[14]The studies quoted in this paragraph have been cited in Asian Development Bank, Japan Bank for International Cooperation, and the World Bank (2005).

attempting to increase the affordability of electricity prices for rural consumers. Policy focus on sustainability of infrastructure investments was considered a particularly important issue: if roads deteriorate and electricity services become erratic, all users are affected including the poor. It was stressed that much greater attention has to be paid by Asian developing countries to road maintenance than is being provided now. The sustainability of electricity services requires that the electric companies are financially strong and tariff policy is depoliticized. Necessary institutional changes and capacity building are also important actions to ensure sustainability.

An important aspect of recent infrastructure investments in Asia is their impact on inclusiveness through promoting regional cooperation. A success story cited in Chatterjee et al. (2004) relates to the Greater Mekong Subregion (GMS) program. Since 1992, when the six member countries of the GMS program[15] first embarked on the program, there have been many accomplishments. Economic linkages among the six countries have been strengthened through a series of infrastructure and associated projects. In turn, the emergence of a new trade area attracted investor interest, promoting economic growth and social development in the subregion. The GMS Program also had a peace dividend—it contributed to trust and better relations among the member countries. Indeed, this contribution may be its most significant accomplishment: nothing could promote welfare for the people in the subregion better than peace and security. Investment in transport infrastructure was complemented by attention to the regulatory framework to facilitate cross-border movement of goods and people. In addition, significant progress has been made concerning trade in energy and in establishing a telecommunications network for the subregion. Two hydropower projects were breakthroughs, both in terms of bilateral partnership (between Lao PDR and Thailand) and private sector participation. They have also promoted power-sharing arrangements on a multilateral basis, along with technical assistance. The impact of these interventions is already being reflected in higher trade and investment flows for the subregion, with early signs of an emerging virtuous trade–investment nexus. Intraregional trade more than doubled in the period 1992 and 2002. All GMS countries have also experienced substantial decreases in poverty incidence.

5. Participatory Governance and Inclusion

Responsiveness of governments to the needs of the poor, and institutions (social capital) that enable the poor to influence policies and allocation of resources that fulfill them are among the most durable factors that promote inclusion. What lessons does the Asian and Pacific region have in respect to these?

Despite considerable debate on this issue, differences in the type of political structure of a country in the region have not been conclusively

[15] The countries are Cambodia, PRC, Lao PDR, Myanmar, Thailand, and Viet Nam.

associated with differential impact on growth. Certain writers (Quibria 2002) have implied that authoritarian regimes, which have characterized economies of East Asia, have generally been supportive of investments and long-term growth, and that democracies in Asia have been subjected to pressures of fulfilling immediate consumption needs and so have not benefited from growth. This is now clearly belied by the Indian experience. The converse, that democracies have been more successful in creating governments responsive to the poor is also not true. Manipulation of the democratic process for narrow political interests by groups averse to development is common in the experience of developing democracies, and the Asian and Pacific region is no exception.

Whatever their structure of government may be, however, in general, countries in the region have attempted to pursue macroeconomic stability, whether to achieve growth or inclusiveness, which has resulted in controlling inflation with direct impact on the poor. In the East Asian economies, inflation declined from over 10 percent per annum in the 1970s, to around 5 percent in the 1990s. In the case of South Asian economies, the average rate of inflation has hovered a little below 9 percent in this period.

As far as creation of participatory institutions is concerned, the recent decentralization programs in the region are cited as major achievements. Examples include the Philippines, which introduced major devolution through its 1991 Local Government Code. Transfer of insufficient authority has, however, plagued the Philippines's decentralization process (see Manasan and Chatterjee 2003). Indonesia conducted one of the most comprehensive decentralizations of authority to district-level administrations in 2001, and transferred more than 1 million staff from the central government and almost all development-related responsibilities along with resources to them. However, the Indonesian experience is too early to judge. An important issue, however, in all these decentralization programs is the readiness of local authorities to undertake the tasks devolved to them. Building up local capacities has been an important issue (see ADB 2002b).

IV. CONCLUSIONS AND LESSONS FROM THE ASIAN AND PACIFIC REGION

What are the experiences and lessons from the Asia and Pacific's economic history since the 1970s?[16]

Economic growth has had the most significant impact on reducing poverty. But the experience of the region does not suggest that promoting growth alone as a policy measure will help in the future particularly as there are signs that growing inequalities are beginning to reduce the impact of growth. East Asia's

[16]Given that country circumstances are unique the applicability of these general Asia-wide lessons may need to be considered carefully given the special needs of each country. Some of the lessons may be more relevant than others. On how to extract lessons to fit country circumstances see for instance Hausman, Rodrik, and Velasco (2004).

growth was sufficiently high enough in the 1970–2000 period to overcome growing inequalities and still cause substantial reduction in poverty. South Asia on the other hand did not experience significant growth in inequality but its growth was insufficient to cause much reduction in poverty. In the future, if the region is to continue its record of substantial poverty reduction it must pay attention to inequality. This indicates the first important conclusion from the lessons from the region.

(i) *Policy planners must attempt to increase economic growth and must also ensure that income inequalities do not worsen.*

The way growth has been promoted also has important lessons, which may need to be highlighted as elaborated in Section I. This leads to the next conclusion.

(ii) *The Asian and Pacific region has relied on its own savings to support investment rather than indebtedness; created incentives including macroeconomic stability for investment; stressed human development; and achieved continued increase in factor productivities by promoting absorption of technology, openness, and institutional changes in industrial and trade policies. It has also successfully reduced population growth. The institutional and policy framework supporting these measures needs to be sustained.*

In pursuing the above, policy planners should simultaneously attempt to induce an economic growth process that is broad-based and inclusive, as well as directly intervene to promote inclusiveness. In order to make growth inclusive, the experience of the region appears to suggest that sectoral composition of growth does matter. However, regions or countries at different stages of development would have different sectoral structures. Thus there are findings that where poverty has been mainly a rural phenomenon, such as in South Asia or during the earlier stages of East Asia's development, agricultural growth needs to be increased, agriculture being the main avocation of the rural sector. On the other hand, where countries are at a stage where the primary sector has ceased to be the dominant sector and the Kuznets U-turn has already occurred, secondary sector growth may be more important both to absorb rapidly the rural poor as well as reduce poverty in those employed in the secondary sector. This suggests the next conclusion.

(iii) *Sectoral composition of growth is important; but in promoting growth of the appropriate sector, policy planners must carefully study the country situation. Where poverty remains high in the rural sector and structural transformation possibilities are low, agricultural growth would remain important. Otherwise, secondary sector growth may be more inclusive.*

The experience of East Asia is quite different from South Asia as far as labor absorption in the growth process is concerned: East Asia had experienced substantial growth of employment to population as a part of growth than South Asia. This may indicate considerably more rigidities in labor absorption capacity in South Asia compared to East Asia and could be due to a variety of reasons including flexibility of labor markets. The focus should not be on flexibility of labor legislation alone, since such legislation is usually confined to the organized sector above a certain firm size. It also involves (a) promoting policies that allow a faster structural transformation from primary to secondary and tertiary production and reduces dualistic rigidities in the economy; and (b) policies that allow an unfettered growth of the secondary and tertiary sectors. The group of policies covered by (a) includes reducing costs of migration, convenient location of industries close to sources of labor to reduce costs of providing urban services, etc.

(iv) *Labor-absorbing growth is a powerful poverty-reducing process. To aid this process, policy planners need to consider a whole range of policies that reduce rigidities in the absorption of labor including dualistic structures, and promote rapid structural transformation. Reducing inflexibilities in the labor market involves more than just reform in labor legislation and includes reducing social and economic costs of migration from primary to secondary and tertiary sectors, deregulation of industry, and others.*

Apart from policies that impact indirectly on poverty through growth, the Asian and Pacific region also followed a number of direct inclusive development and poverty reduction interventions with varied success. Land reform, which directly increases access of the poor to a critical factor of production, obviously has great potential as a measure of inclusion. East Asian countries, in contrast to South Asian countries, had all undertaken land reforms and therefore, as argued by many, had better initial conditions to spur inclusive development. However, it is increasingly difficult to undertake land reforms owing to the political opposition that it generates. Only a few instances exist, such as West Bengal, where a successful land reform program was carried out in recent years but this was due in a large measure to the political support it received from a committed leftist government in the state. Besides, with the decline in the importance of agriculture in Asian economies, land reform would be important only where agriculture still is an important activity. In such countries there is still scope, given usual opposition to radical measures, to undertake less radical second-best measures that have substantial impact such as tenancy registration, improvement in land records, promoting land rights of women, etc.

(v) *Land reform is an important measure of inclusive development in countries where agriculture is important in national activity and*

contains a sizeable proportion of the poor. In such countries, practical, less radical, second-best measures that have significant impact on the poor could still be pursued where more radical measures are difficult.

As in the case of land, the poor in the Asian and Pacific region have little access to capital and finance and making microfinance available can be a major instrument of poverty reduction. However, the region has had few success stories (except, for example, Grameen Bank in Bangladesh, Bank Rakyat Indonesia's Unit Desa in Indonesia, and BAAC in Malaysia). For microfinance to succeed in the region, the overall environment within which it has to operate must be improved, interest rates deregulated, and easier collateral for small account holders and infrastructure to better service numerous small accounts developed.

(vi) *The Asian and Pacific region is yet to utilize microfinance to its potential. This would require reforms to generate the correct environment for its success, including political support for commercializing microfinance through freer interest rates, and easier collateral and improved rural transport and communications infrastructure.*

The region's success story rests significantly on human capital development. There is consensus on the fact that it played an important role in generating growth in the East Asian countries, and the relative slower rate of growth in South Asia as well as the sustainability of its recent increase in growth will depend to a great extent on considerable efforts on expanding human capital. Human capital not only enables growth, it can also, if targeted toward the poor, act directly as a powerful measure of inclusive development and poverty reduction.

In education, the region has made good progress, although South Asia has yet to catch up with East Asia's achievements in primary and secondary education. The future strategy for the region will be to further expand enrollments in primary and secondary education, reduce illiteracy further, and focus more attention on improving the quality of education. In health, the story is similar in terms of attainments and the differences in achievements within the subregions. In gender equality also, this subregional variation is evident. The key human development indicators are also included as part of the nonincome MDGs, reflecting the importance the international community attaches to them. Whatever this global partnership may bring, the Asian and Pacific region must continue to provide high priority in resources, including harnessing private resources, and to build capacity and reform institutions in order to make delivery of basic services more efficient, better targeted, and speedier. This suggests the following conclusion.

(vii) *Human capital development has been a major driving force in growth and inclusive development in the region. But its achievements, though impressive in many respects, are still inadequate, particularly in the case of South Asia. The region must persevere in its major efforts at further building up human capital; provide adequate resources including more private resources; reform delivery institutions; and build capacity for more efficient services targeted to the poor. Gender exclusion and other deprivations continue to confront the region and active programs to overcome them are essential.*

The Asian and Pacific region's experience indicates that infrastructure can play an important role in directly supporting inclusiveness. Rural infrastructure, including both rural roads and rural electrification, in particular, has been seen to have a powerful impact on poverty in both its income and nonincome dimensions. Infrastructure can also be an important instrument of regional cooperation and bring poor regions into the economic mainstream by enabling connectivity across frontiers. ADB's GMS provides a success story in this regard that can be emulated within as well as outside the region.

(viii) *Infrastructure particularly rural infrastructure has been, in the region's context, an important instrument for directly reducing poverty, in both its income and nonincome dimensions. If well-targeted to poorer regions, infrastructure removes critical binding constraints that prevent the poor from increasing their incomes and gaining access to basic services. Infrastructure has been an important element of the regional cooperation efforts of the region and enabled poor, often landlocked regions to gain access to the economic mainstream and increase trade and incomes of the poor.*

Finally, lessons on participatory governance include, clearly, success in controlling inflation, which is an important pro-poor measure. Decentralization holds major promise and is increasingly being adopted as a measure of inclusiveness. Its net impact is yet to be fully assessed. This leads to the final conclusion of this paper.

(ix) *A major success in participatory governance is controlling inflation. Decentralization holds major promise but throws up a host of challenges, including lack of capacity at local levels, which have to be addressed.*

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