

# The Other SIDE of the Asian MIRACLE

by Peter Zirnite

**T**he World Bank, after years of touting the East Asian economic “miracle” as a prime example of how growth can be obtained with equality, now admits that despite unprecedented prosperity, the gap is widening between the region’s rich and poor.

While strong economic growth throughout most of the region has “generated considerable benefits for the poor,” concentration of this growth in particular regions within countries, and inadequate investment in education, have given rise to growing inequality—particularly in China, Hong Kong and Thailand—according to a World Bank report released in Washington, D.C..

Bank officials also warn that recent turbulence in the region’s financial markets could slow economic growth and in turn cause poverty levels to rise, after declining dramatically over the past 30 years. However, they were reluctant to make any predictions because governments in Thailand, Malaysia and elsewhere were still adjusting their policies in response to this financial turmoil.

“Inequality is back on the agenda,” said Michael Walton, co-author of the report: “Everyone’s Miracle: Revisiting Poverty and Inequality in East Asia.”

At a press conference Walton, the bank’s former chief economist for East Asia, noted that the increasing concentration of wealth at the top is reflected in the “sharply rising of multi-millionaires throughout the region.”

Although Thailand and China are experiencing the greatest problem with growing inequality, regionwide there is “concern that certain groups are being left out,” according to Walton. He said even in Malaysia, one of the few countries where economic growth has been accompanied by a significant reduction in inequality, “that is beginning to turn around.”

Walton said “a change in the numbers now available” indicates that inequality has long been a feature of the East Asian “economic miracle.”

Although economists have used the region’s performance as evidence that countries can simultaneously obtain high rates of growth and reduce inequality, new data indicate that recently there has been a “significant rise in inequality,” he said.

“Access to education is a critical factor—explaining who in Asia is poor and is not,” said Gautam Kaji, the Bank’s managing director of operations. To improve access to education, he said, low-income countries,

such as Vietnam and Laos need to invest more in primary education, while middle-income countries, including Thailand and Indonesia, must spend more on secondary education.

Government policies that concentrate development in urban areas regions also have contributed to rising disparity, according to Walton. He pointed out that rural, inland China, northeastern Thailand and the eastern islands of Indonesia have not benefited from the overall rapid growth of those nations because government officials have chosen to neglect development in these regions.

Inequality is also exacerbated in some countries, such as Vietnam, by government economic policies that discriminate against particular ethnic groups, according to Walton.

Despite the problem of inequality, the Bank report hailed the widespread economic growth in the region.

“Apart from Mongolia and the Philippines, there is no question that economic growth in the region, already impressive in 1965-80, has continued at a remarkable pace and become more geographically widespread since 1980,” the report said.

Walton said the most striking feature of this regional growth—between 1990 and 1995, it ranged from 10.8 percent in China to a decline of 3.7 percent in Mongolia—has been “a decline in poverty that is probably completely unprecedented in human history.”

According to the report, the number of people living below the poverty line—defined as one U.S. dollar a day per capita—fell from 716.8 million

in 1975 to 345.7 million in 1995. China led the way with a reduction of nearly 300 million, but it still has more than 269 million people living in poverty.

The Philippines and Papua New Guinea are the only countries where the total number of poor people increased, growing 2.2 million in the Philippines since 1975 and by 500,000 in Papua New Guinea over the past decades.

The highest poverty rate is in Mongolia where 81.4 percent of people live on less than one dollar per day, followed by Vietnam (42.2 percent) and Laos (41.1 percent). The lowest rates were in Malaysia and Thailand, both of which reported that less than one percent of their populations live in poverty.

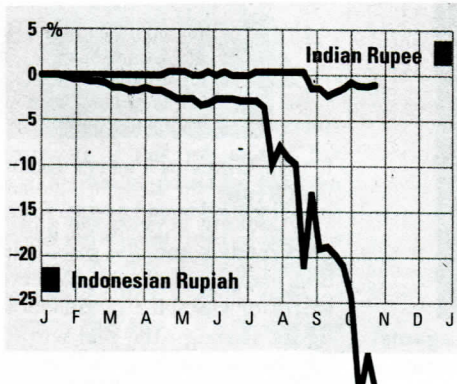
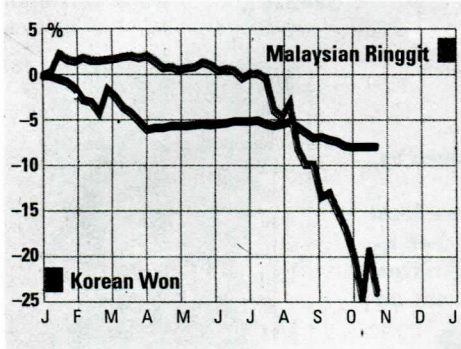
Kaji cautioned that recent “financial market turbulence” in Thailand, Malaysia, and elsewhere in the region could affect the poverty-reduction trend. “In some cases, poverty may in fact rise as growth slows,” he said.

While a decline in economic growth “clearly has poverty implications” Kaji warned that it is too soon to predict that growth will slow as a result of the recent financial turmoil. “You don’t know how this is going to spin out. Clearly, the adjustments process is not complete,” he said.

“There can be no shrinking from sound monetary and fiscal policy,” Kaji said. He added that, depending how governments respond to the crisis, they could improve competitiveness and return to “a path of high growth.”

Source: *Inter Press Service*, 27 August 1997

Movement of Currencies Against the U.S. Dollar



Source: *Asiaweek*, 31 October 1997