Crawford School Dialogue

Asia's Economic Transformation:

Implications for Australia

Presented by the Arndt-Corden Department of Economics and the Crawford School

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Poverty Reduction: China, India and Indonesia

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What is the value of economic growth for the poor?

We will look at this in the context of China, India and Indonesia.

The <u>headcount index of poverty incidence</u> is the proportion of the population whose real expenditures fall below a fixed threshold (the poverty line).

The monetary value of the poverty line is adjusted over time to keep its real purchasing power constant.

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The <u>Gini coefficient of inequality</u> measures the degree to which the distribution of expenditures (or incomes) differs from complete equality.

Higher Gini coefficients mean greater *<u>in</u>equality*.

Table 1 Levels of real GDP, poverty and inequality

	China			India			Indonesia		
	1981	1993	2005	1981	1993	2005	1981	1993	2005
GDP per capita, PPP (const. 2005 US$)	544	1507	4115	932	1317	2308	1441	2494	3217
Poverty incidence (US$1.25, PPP, %)	84.0	53.7	16.3	59.8	49.4	41.6	77.0	55.3	21.4
Gini coefficient of inequality (%)	29.1	35.5	41.5	35.1	30.8	33.4	34.0	34.0	33.0

Source: World Bank, *World Development Indicators* and *Povcalnet*.
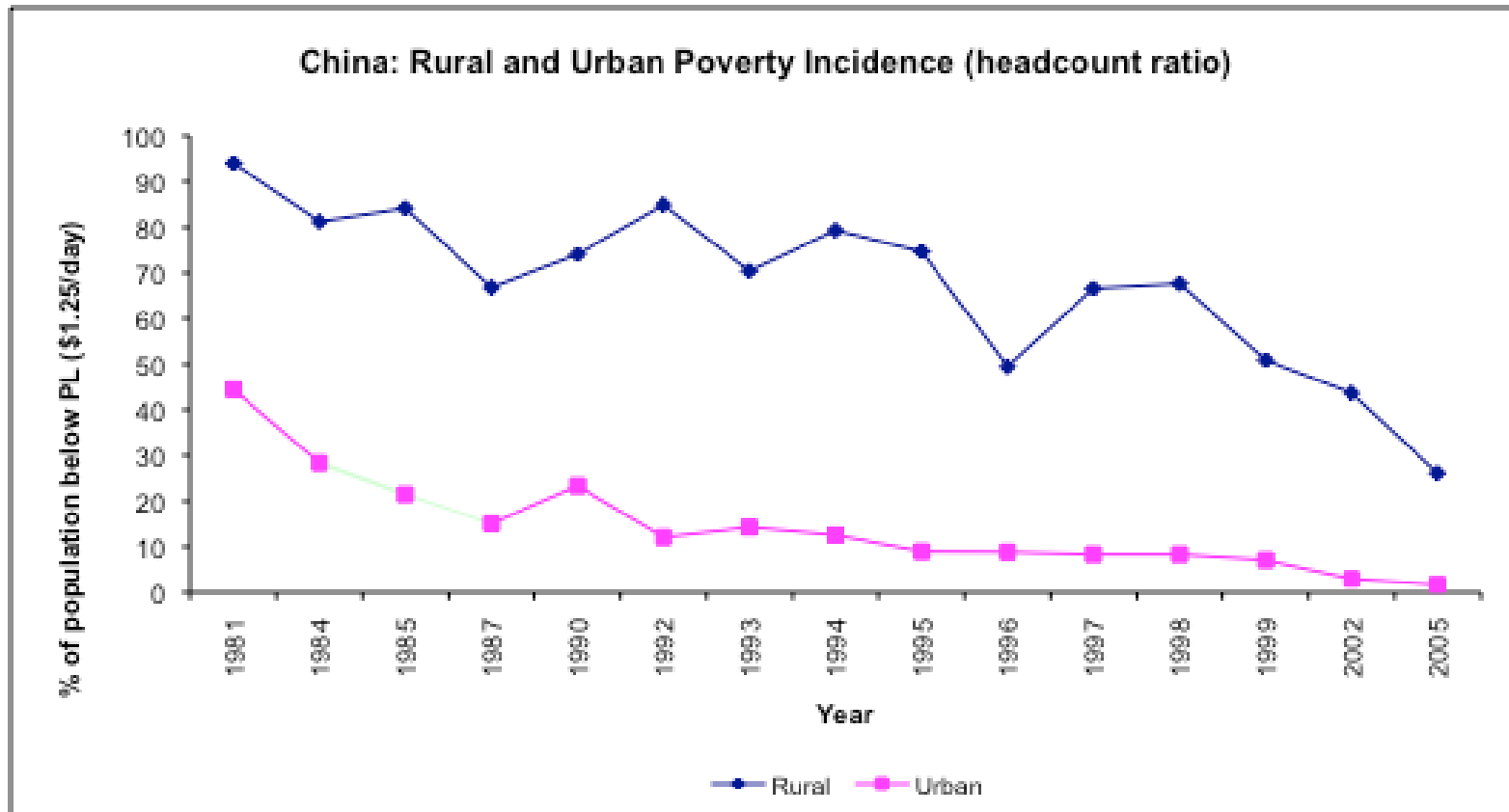
Table 2 Annual rates of change

	China			India			Indonesia		
	1981-1993	1993-2005	1981-2005	1981-1993	1993-2005	1981-2005	1981-1993	1993-2005	1981-2005
GDP per capita, PPP (const. 2005 US$)	8.9	8.7	8.8	2.9	4.8	3.9	4.7	2.1	3.4
Poverty incidence (US$1.25, PPP, %)	-2.5	-3.1	-2.8	-0.9	-0.7	-0.8	-1.8	-2.8	-2.3
Poverty reduction per unit of growth	0.28	0.35	0.32	0.31	0.15	0.21	0.38	1.33	0.68

Table 3 Levels of real GDP, poverty incidence and number of poor

	China + India + Indonesia		
	1981	1993	2005
GDP per capita, PPP (const. 2005 US$)	764	1513	3284
Poverty incidence (US$1.25, PPP, %)	74.2	52.1	27.3
Number of poor (millions)	1370	1180	715

Table 4 Annual rates of change

	China + India + Indonesia		
	1981-1993	1993-2005	1981-2005
GDP per capita, PPP (const. 2005 US$)	5.9	6.7	6.3
Poverty incidence (US$1.25, PPP, %)	-1.8	-2.1	-2.0
Change per year in number of poor (millions)	-15.8	-38.8	-27.3
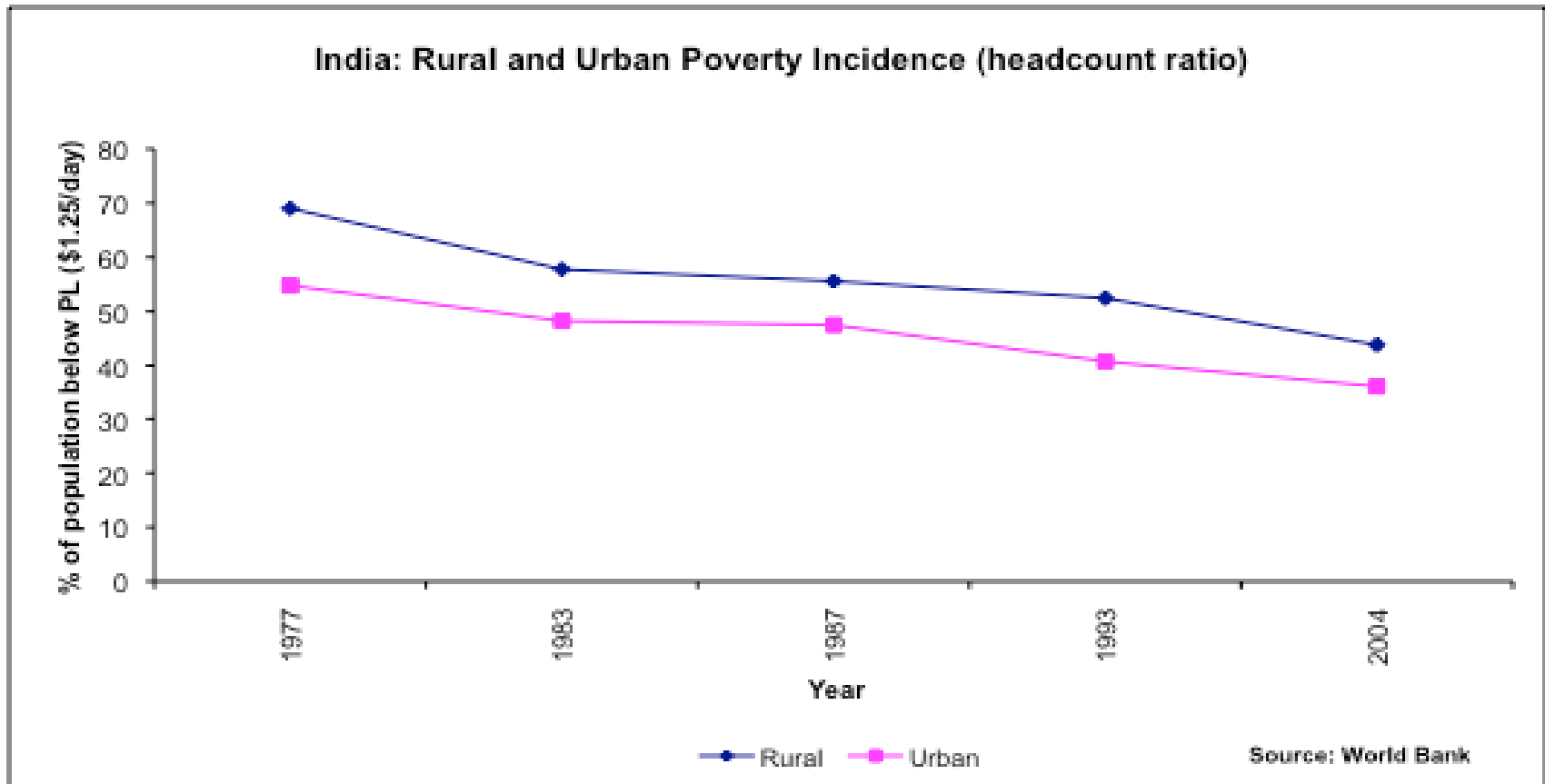
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China: Rural and Urban Poverty Incidence (headcount ratio)

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India: Rural and Urban Poverty Incidence (headcount ratio)

Source: World Bank

Indonesia: Rural and Urban Poverty Incidence (headcount ratio)
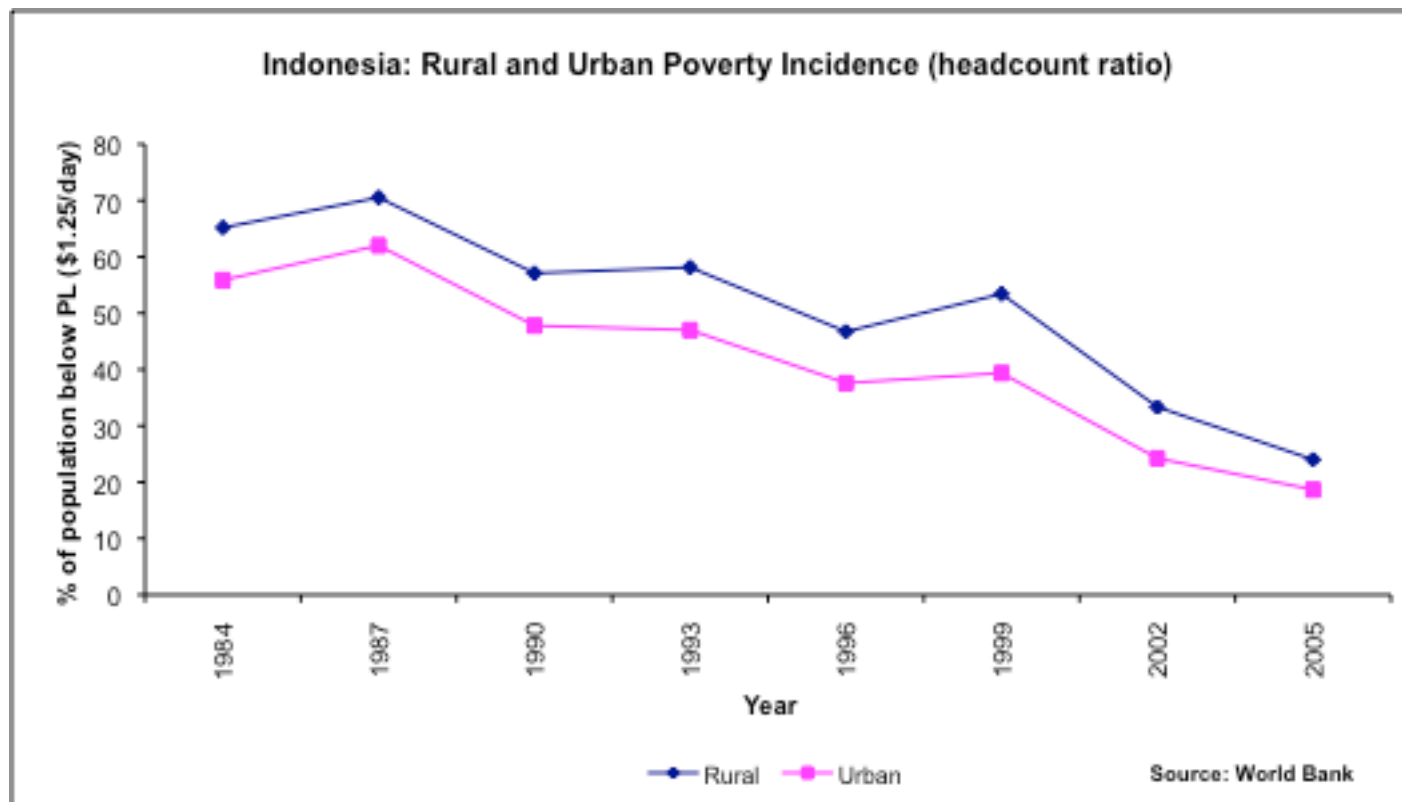
Table 5 The dominance of rural poverty within total poverty (%)

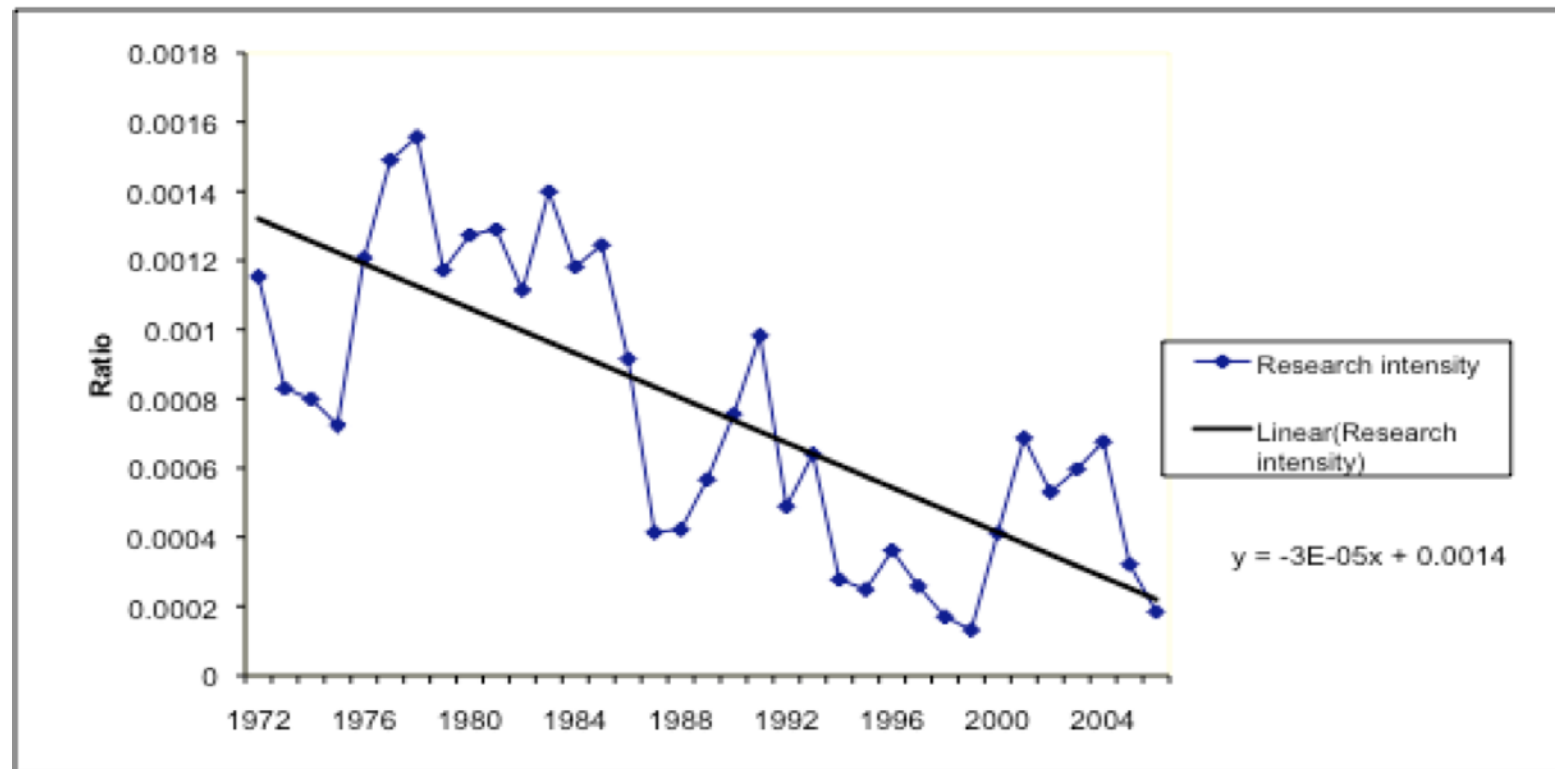|	China	India	Indonesia
Number of rural poor / total number of poor 2005, (%)	96	75	58
Contribution of rural poverty reduction to total poverty reduction, 1993 to 2005 (%)	77.4	71.4	63.0

Implication for Australia:

If we want to contribute to reducing poverty in Asia, look at how we can help in reducing <u>rural</u> poverty

Agricultural research intensity in Indonesia, 1972 to 2006

(Agricultural research expenditure / Value added in agriculture)

$y = -3E-05x + 0.0014$

Some research questions:

-**Why has inequality risen so much in China?**

- **Why has India's record of poverty reduction per unit of economic growth been so mediocre?**

- **Why has Indonesia's record of poverty reduction been so good, relative to its growth performance?**

A philosophical question:

Should welfare comparisons be based on relative or absolute conceptions of human welfare?

Karl Marx thought <u>relative</u> positions were all that counted:

"A house may be large or small; as long as the surrounding houses are equally small it satisfies all social demands for a dwelling. But let a palace arise beside the little house, and it shrinks from a little house to a hut … the occupant of the relatively small house will feel more and more uncomfortable, dissatisfied and cramped within its four walls."

[From Marx's 1849 pamphlet, 'Wage Labour and Capital'. Cited in Tucker (1972, p.182).]

Does this make sense in the context of poor people?

Thanks for listening