Reducing Poverty and Hunger in Asia

Poverty in Asia and the Transition to High-Priced Food Staples

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There are three basic ways to reduce poverty: redistribute productive assets (especially land) to the poor; provide direct income supplements or subsidies to the poor; and connect the poor to rapid, sustained economic growth. Over the past century, Asia has tried all three approaches to reducing poverty. The historical record suggests that only economic growth in which the poor participate can lift large numbers of the population out of poverty and keep them and subsequent generations above the poverty line. Creating the technologies, infrastructure, and environment for such growth requires active government policy.

This policy brief reviews the historical lessons from the Asian experience with reductions in poverty and hunger, then examines current issues and the challenges ahead. The focus is on the role of government policy in enhancing food security at both the household and national level, because achieving and sustaining food security is the end result of reductions in poverty and hunger. Thus there is an inevitable need to address the underlying political economy that explains why some governments have been more successful than others in providing and sustaining food security for their citizens.

The main lesson from Asia's economic history is that poverty reduction succeeds only when there is a basic political commitment to an economic growth process that includes the poor. This commitment has three key components:

1. **Rapid growth** is necessary for sustained poverty reduction, and this growth requires
   a. macroeconomic stability, including relatively stable food prices;
   b. a reasonably open trade policy for goods and services; and
   c. a competitive market economy that generates labor-intensive growth with rising real wages and greater participation in the formal sector.
2. **Efficient government investments and policies** are needed to connect the poor to this growth. These investments and policies include
   a. rural infrastructure, especially farm-to-market roads and communications;
   b. public health and education facilities that are accessible to the poor;
   c. technologies that have substantial public-good dimensions to them, especially for agriculture and health; and
   d. a smooth interface between rural and urban economies, including easy opportunities for rural-to-urban migration.
3. **Effective public–private partnerships** provide the political dynamic for pro-poor growth. Such partnerships require
   a. integrating macro-level (market-level) with micro-level (household-level) food security,
   b. rural–urban financial intermediation for market integration, and
   c. local leadership to improve the rural investment climate.

Asia's dramatic poverty reduction in the past was driven by pro-poor economic growth. This growth was made possible by a successful Green Revolution, led by high-yielding rice varieties (and wheat in South Asia and north China); massive investments in rural infrastructure, including irrigation; and the ready availability of fertilizer. The resulting economic growth was the most pro-poor in history and led to the most rapid and widespread reduction in poverty over four decades that has ever been witnessed.

There is also an argument that Asia's success has been significantly conditioned by the key role that rice plays in its food systems. As a commodity, rice is different, and the difference has powerfully influenced economics and politics throughout much of East and Southeast Asia (the wheat-growing areas of South Asia face somewhat different problems). The difference is manifested in three ways.

First, rice is the dominant food staple throughout the region, often accounting for more than half of normal food energy intake, even as diets begin to diversify among the middle and upper classes. Daily access to rice is essential for survival, especially for the poor.

Second, rice is grown predominately by smallholders who have been adept at adopting new technologies when market signals were favorable. In many countries, rice farmers are the single largest identifiable voting group, and catering to their interests has been important even in non-democratic societies. As in their response to market signals, small farmers throughout Asia are also adept at responding to (and sending) political signals.

Third, international rice markets have been historically thin and unstable, causing all Asian countries to buffer their own farmers and consumers from fluctuating world prices (and thus making the world price fluctuations worse in an even thinner market). Historically, this buffering required governments to control the flow of rice across their borders. Since the mid-1980s world rice prices have not shown the sharp fluctuations seen in earlier decades, and there is hope that in the future world rice markets will be as stable as wheat and maize markets. That possibility has not yet sunk in among policymakers.

These characteristics of rice-based food systems forge a strong link between politics and economics, a link that policymakers, elected or not, see as a public mandate to deliver food security in the form of stable access to rice. Without understanding this link, it is impossible to understand Asia's record of economic growth—driven historically by dynamic rural economies—and the subsequent, seemingly inevitable, rise of agricultural protection and high-priced food staples, even in societies that remain quite poor. Although some of the forces driving this protection are similar to those in Europe and the United States, the speed, level, and early onset are unique to Asia.

GROWTH, POVERTY, AND STABILITY

The close historical connection seen in much of East and Southeast Asia between improvements in food security and reduction of poverty has been a result of government efforts to link market-led economic growth to interventions that improve food security at both the household and national levels. This strategic connection was driven to a large extent by the special nature of smallholder agriculture in Asia, and especially by particular characteristics of Asian rice economies.

A coherently designed macro-level food policy couples a strategy for food security with a strategy for growth that reaches the poor. Establishing this link to food security allows a country to capture growth opportunities, some quite subtle, that are missed otherwise. Such a macro-level food policy has three components, which, in turn, reinforce the country's food security: rapid economic growth, poverty reduction through growth in rural productivity, and stability of the food system. Agriculture, especially the rice sector, and a dynamic rural economy are the keys to integrating all three components.

This macro-level perspective on the food economy helps integrate a country's food security at the household level with national food markets. In turn, food security at both levels enhances the prospects for rapid economic growth, poverty reduction, and broad-based participation by citizens in higher living standards. The complexity for food policy arises because the achievement of each of these goals depends on the simultaneous pursuit of the other two strategies, which interact through market and behavioral mechanisms. For example, rapid economic growth must be designed to reach the poor. Otherwise, poverty reduction is delayed. Likewise, more direct interventions to reach the poor, such as a targeted food distribution program, cannot be sustained if many rural households are poor. Similarly, raising poor households above the poverty line does not guarantee their food security if food supplies disappear from markets or if prices rise beyond their means.

REACHING THE POOR

Very rapid declines in poverty rates were achieved in China, Indonesia, and Vietnam beginning in the 1970s, and starting earlier in Malaysia, Thailand, and Northeast Asia. Income distribution tended to be stable, or even improve somewhat, during periods of extremely rapid growth in average incomes per capita. Despite this long-run stability in income distribution, there is considerable short-run variance in how well the poor connected to economic growth. This variance tends to be explained by initial conditions—especially land distribution—and by the sector of economic growth. In most of Asia, agricultural growth, especially driven by higher productivity in the foodgrain sector, has tended to be much more pro-poor than growth in the modern industrial or service sectors. Food prices are also influential in explaining changes in income distribution, with sharply rising food prices especially bad for the poor.

STABILIZING FOOD PRICES

All government leaders recognize the impact of rice prices on the poor, and most countries stabilize their rice economy by keeping domestic rice prices more constant than border prices. Economic growth, poverty reduction, and stability are linked to each other through a set of "virtuous circles." Greater stability of the food economy contributes to faster economic growth by reducing signal extraction problems, lengthening the investment horizon, and reducing political instability. In the other direction, stability contributes to equity and poverty reduction by reducing the vulnerability of the poor to sudden shocks in food prices or availability. Greater equity also stimulates investment in human capital, especially in rural areas, thus speeding up economic growth, at least in the long run.

From 1970 to 1995, Indonesia managed this stabilization process while not deviating far from the long-run trend of prices in the world market. More-developed countries in the region, from Japan to Malaysia, kept their rice prices stable at levels that became progressively higher in relation to the price of rice in world markets. Much of this divergence, however, was not due to a conscious policy of raising the real price of rice domestically, but because the world price of rice declined almost continuously from the mid-1970s to the mid-2000s. Most of these economies also had appreciating currencies relative to the U.S. dollar, the currency in which world rice prices are quoted.

By implementing a simple policy objective of stabilizing the real domestic price of rice—the operational definition of food security in these societies—most Asian countries saw the level of protection of their rice farmers rise sharply from the 1970s to the mid-1990s. Pro-poor economic growth and stable rice prices were the recipe for food security in East and Southeast Asia. High levels of agricultural protection, and failure to diversify and modernize their agricultural sectors, were largely unanticipated side effects of the strategy of growth with stability. Efforts to reduce these high levels of agricultural protection, especially for rice farmers, by directly confronting the political forces defending this "Asian" approach to food security, have been repeatedly rebuffed since the 1980s.

Integrating all three components of the strategy for food security—rapid growth in the macroeconomy, poverty reduction through rural economic growth, and stability of the food system—is greatly complicated by the changing relationship between the rural and urban economies during the process of industrialization. In all successful economies, incomes earned from farming tend to lag behind those earned in other occupations. Rural labor productivity can increase in two ways: directly in agricultural activities, through the application of new technologies, and indirectly, as workers shift from agriculture to manufacturing or the modern service sector. Both processes are part of the structural transformation, but the productivity of urban workers tends to run ahead of rural productivity, causing a pronounced structural lag.

In most of Asia, from China to Indonesia to India, there has been a growing spread between the wages earned by unskilled agricultural workers and new entrants into labor-intensive manufacturing sectors, such as garments and electronics.

At the same time, rice (and wheat) growing has been kept profitable through subsidies, virtually free irrigation water, price support and stabilization programs, and a well-developed rural infrastructure that ensures low marketing margins. Investments in rural education and health have helped build human capital, but accumulation of other assets by farmers has been limited.

MANAGING FOOD POLICY DURING THE STRUCTURAL TRANSFORMATION

The challenge throughout Asia is to modernize agriculture, reduce its heavy dependence on rice through diversification, integrate the entire rural economy more fully into the industrial sector, especially through greater processing activities, and keep rural incomes high enough to avoid rapid migration of workers to cities. Much of this challenge is not unique to Asia (although rice economies really do face different challenges than wheat- or corn-based economies). It is at the heart of the tension generated by all successful structural transformations. But the political pressures to resolve the tension can quickly distort policymaking and cause massive budget losses, burdens on consumers, and conflicts with trading partners. In particular, efforts to **reduce** the incomes of rice farmers by bringing domestic prices closer to world prices are seen by policymakers as **worsening** the situation, not helping it. A food policy that helps smooth the transition from a poor and rural economy to a rich and urban economy would pay very high dividends, but it must be formulated with a clear understanding of why the structural lag exists and its political link to food security.

Managing policy during the structural transformation thus becomes the organizing framework for food policy analysis. The advantage (but also the challenge) of this perspective is the need to keep long-run objectives and economic forces in focus at the same time that short-run crises receive urgent attention. For example, even as governments in the region attempt to cope with the problem for rice farmers of low prices in world markets, the structural transformation has reduced the significance of rice to national economies, to consumers, and even to rural incomes. Throughout Asia, most rice-producing families now earn more income from nonrice sources, including nonfarm sources, than they do from producing and selling rice. Growing rice is a source of income that is competitive with nonfarm wages for only a small share of rural households, and the proportion will continue to fall in the future. If efforts to raise incomes of rice farmers are not consistent with these longer-run forces, the efforts will at best be expensive palliatives that slow down the movement of resources to more highly paid alternatives.

THE POLITICAL ECONOMY OF AGRICULTURAL PROTECTION

It is one sign of progress that policymakers throughout Asia have come to worry more about keeping rice prices high than about keeping them low. Historically, in those societies in which poverty has remained untouched or even deepened, the agricultural sector has been seriously **undervalued** by both the public and private sectors. In addition to an urban bias in most domestic policies, the root cause of this undervaluation was a set of market failures. Commodity prices, by not valuing reduced hunger or progress against poverty, failed to send signals with appropriate incentives to decisionmakers. These inappropriate signals tend to cause several problems.

First, low values for agricultural commodities in the marketplace are reflected in low political commitments. But political commitments to rural growth are needed to generate a more balanced economy. The developing world has already seen a notable reduction in the macroeconomic biases against agriculture, such as overvalued currencies, repression of financial systems, and exploitive terms of trade. Further progress might be expected as democracy spreads and empowers the rural population in poor countries (although agricultural policies in most democracies make economists cringe).

The second problem with low valuation of agricultural commodities is that rural labor is also undervalued, a point stressed by Arthur Lewis more than a half century ago. This undervaluation weakens the link between urban and rural labor markets (by creating surplus labor in rural areas), a link which is usually manifested in the form of seasonal migration and remittances. **There is no hope of reducing rural poverty unless real wages for rural workers rise**. Rising wages (in both rural and urban sectors) have a demand and a supply dimension, and migration can affect both in ways that support higher living standards in both parts of the economy. Migration of workers from rural to urban areas raises other issues, of course, but those issues depend fundamentally on whether this migration is driven by the push of rural poverty or the pull of urban jobs. Whatever the cause of migration, the implications for food security are clear: a greater share of food consumption will be sourced from urban markets. Whether these urban markets are supplied by domestic farmers or international trade is one of the key food security debates under way in most Asian countries.

So far, policymakers' typical response to both of these problems has been to address them with trade and subsidy policies that increasingly protect farmers, especially rice farmers, from foreign competition. How does urban bias turn so quickly to agricultural protection? The question has fascinated political scientists and economists for some time. Building on theories of rent seeking and collective action, researchers have made several attempts to explain the rapid rise of agricultural protection in Asia in terms of the changing role of agriculture in the structural transformation and the costs of free-riding in political coalitions. In broad terms, this approach is now formalized as "positive political economy." Actors in both economic and political spheres make rational (personal) choices with respect to policies, using political action, lobbying, and even bribery as mechanisms of influence.

These "rational choice" models of agricultural protection, while illuminating, are not entirely satisfactory. An alternative model that builds on Asian societies' deep desire for food security, manifested as stable rice prices, does a much better job of explaining changes in the nominal degree of protection of rice farmers in Asia. It is this deep-seated desire for food security that explains the rapid flip from urban bias to high protection. Newly well-off urban workers no longer need cheap rice to survive, but they still must buy all of their rice in local markets. They want to be certain rice is available. For societies deeply distrustful of the world market as a source of reliable supplies, it is a very short step to protecting their own rice farmers as the surest vehicle to ensure the availability of rice.

But food security for the poor does not come from protecting farmers. The historical lesson from Asia is clear: **the only way to sustain food security is through pro-**

poor economic growth. No country has been able to generate such growth decade after decade without reasonably open engagement in the world economy for its manufacturing sector. Rice has lost much of its significance to Asian macroeconomies, but the poor still rely on stable access to rice in rural and urban markets. Keeping those markets stable and accessible will be far easier and cheaper if Asia's agricultural economies, including its rice economies, also participate openly in world markets.

The way forward is to make rice less "different" to consumers, farmers, and the world market by making it more of an economic commodity and less of a political commodity. Much progress has actually been made in this direction since the 1980s, mostly as a by-product of Asia's rapid structural transformation, the product (and cause) of economic growth and rapid urbanization. But that progress has not been clearly recognized or understood, especially in political circles. Without this understanding, the potential for rice to be an "economic" commodity has not been incorporated into new, politically viable strategies for food security in Asia.

Still, the ingredients of such a strategy are clear: greater investment in rural human capital to improve labor productivity and mobility; more diversified and higher-valued rural economies that provide the commodities needed by modern supply chains and domestic supermarkets; more efficient rural financial markets to facilitate farm consolidation and even rural exit; and coordinated international efforts to open the world rice market to freer trade in order to deepen and stabilize price formation. This is a big agenda, to be sure, but implementing it—even gradually—will ensure a more prosperous and equitable future for Asia's farmers and greater food security for its consumers. ■

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