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Poverty and Global Recession in Southeast Asia

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Poverty and Global Recession in Southeast Asia

edited by
Aris Ananta and Richard Barichello



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MESSAGE

The 2008–09 global recession is already over. However, at the time this message is being prepared in August 2011, the global economic situation does not look bright. People, including those in Southeast Asia, are worried that another recession may hit the world. As in all crises, the poor will again suffer the most, if another global crisis occurs.

It is therefore that I commend the publication of this book, which examines poverty and the 2008–09 global recession in Southeast Asia. Another important feature of this book is its attention to food security in discussing poverty.

I am happy that Dr Aris Ananta, Senior Research Fellow at ISEAS, and Professor Richard Barichello of the University of British Columbia have brought in experts with various scholarly backgrounds to examine the issue and edit the manuscript. I would like to thank Professor Peter Timmer of Harvard University for his Foreword, which has enriched this book.

Hopefully this book can help us understand poverty and food security, particularly during a financial crisis, not only in Southeast Asia, but other regions in the world as well.

K. Kesavapany
Director
Institute of Southeast Asian Studies

FOREWORD

This volume deals with poverty and food security, two themes related to my own work over the past several decades, the impact of food price volatility on the poor, and the role of structural transformation as a pathway out of rural poverty. This foreword is designed to illustrate the links between these two topics and to highlight several of the important findings in the chapters that follow. To do this it is useful to put poverty and food security into a historical perspective using the structural transformation as a framework.¹

Historically, structural transformation has been the only sustainable pathway out of rural poverty. It is a general equilibrium process, intimately linked to what is going on in the rest of the economy (Timmer 2009). As Chairman Mao once put it, “the only way out for agriculture is industry”.

There are four basic patterns to a successful structural transformation and these have been remarkably uniform:

- (1) A declining share of agriculture in value added in the economy (share of GDP) and employment (share of the labour force). Because labour productivity starts out lower in agriculture than outside, there is a gap between the share of agriculture in GDP and in employment, a gap which is gradually eliminated as agriculture is integrated into the rest of the economy. However, recent experience shows this gap often widens before it starts to narrow.
- (2) A commensurate rise in the share of urban/industrial/modern service activities.

- (3) Migration of rural workers to urban settings to allow this transformation to take place.
- (4) A demographic transition with rapidly falling mortality rates, slowly falling fertility rates, and a subsequent period of rapid population growth, which offers a “demographic bonus” when dependency rates drop to low levels for several decades.

The basic cause and effect of the structural transformation is rising productivity of agricultural labour. There are three basic ways to raise labour productivity in agriculture:

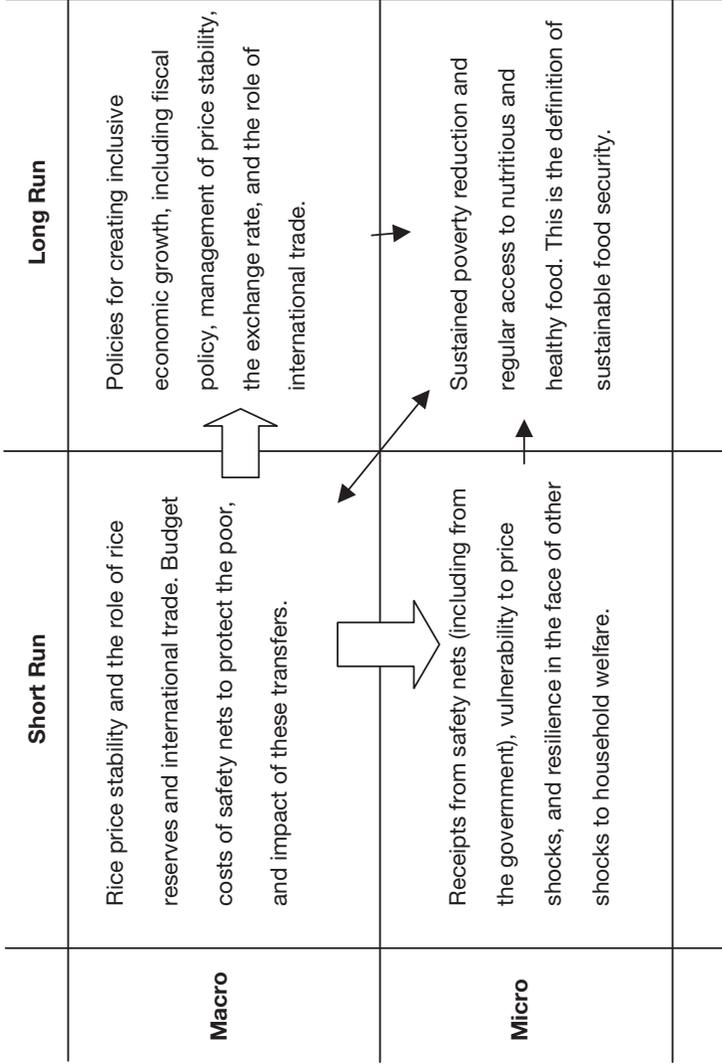
- (1) Through higher prices for agricultural output (make it worth more in real economic terms, which may well be happening in the current economic era).
- (2) Use of new technology to produce more output for a given amount of labour.
- (3) The migration of agricultural workers to other occupations with higher productivity, without lowering farm output (the classic Lewis model of development).

Basic structural forces are behind the remaining poverty and food insecurity in Asia, although this poverty is often exacerbated by sharp spikes in food prices, as illustrated by several of the chapters in this book. Fundamental answers to why this poverty remains in an otherwise dynamic economic region are likely to lie in the realm of political economy, not just economics, as emphasized by Part III of this volume, on “Economics and Politics of Food”.

To understand these basic forces in what is otherwise an extremely complicated food system, it is useful to have an organizing framework. The simple framework used here divides the world into issues facing policymakers in the short run (e.g., 1–2 years) versus the long run (5–10 years or longer), and at the macro, economy-wide level versus at the household, or individual level (see Figure 1).

The policy objective in this simple framework is for all households to have reliable and sustainable access to nutritious and healthy food. This is achieved by ending up in the bottom right box of the matrix. The starting point, however, is the upper left box of the matrix, where policymakers deal primarily with macro-level issues in the short run. To the extent they are concerned about the welfare of poor households, in the short run the best they can do is stabilize food prices and send transfer payments — via safety net mechanisms — to those households most affected during a food crisis when prices rise sharply.

FIGURE 1
Basic Framework for Understanding Food Security Issues in Asia



Source: Created by the author.

In an ideal world, policymakers could use economic mechanisms under their control to shift households directly to the long-run objective, the lower right box where sustainable food security is achieved. In return, policymakers would receive political support for this achievement, hence the two-way diagonal arrow connecting the upper left and lower right boxes. The diagonal arrow reflects a technocratic view of the world where policymakers take informed actions on behalf of public objectives and are rewarded when they succeed.

In fact, market economies, and politics, do not work that way. Policymakers at the macro level must implement long-run measures to stimulate inclusive, pro-poor economic growth, and sustain that growth for decades in order to have a measurable impact on poverty, via the small vertical arrow connecting the upper right box to the lower right box. These long-run measures are reflected in the broad horizontal arrow from the upper left to the upper right, but it is hard to concentrate the political and financial resources needed to make this arrow an effective mechanism to stimulate economic growth if most policy attention, and fiscal resources, are being devoted to short-run crises.

Simultaneously, and creating tensions for the policies favouring long-run growth, policymakers must also find enough resources, and efficient transfer mechanisms, to ensure that the poor do not fall into irreversible poverty traps during times of economic crisis, including food crises. These transfers can impose substantial fiscal costs and hence challenge the necessary investments for long-run growth. Design and implementation of these transfers involves human and political capital that also has real opportunity costs for the growth process. Thus a focus on the broad downward arrow is necessary to ensure the continued viability and participation of poor households, but these activities have opportunity costs in terms of economic growth.

When the global economy is reasonably stable, and when food prices are well behaved, policymakers can concentrate their political and financial capital on the process of long-run, inclusive growth. Keeping the poor from falling into irreversible poverty traps is easier and less costly in a world of stable food prices, and the poor are able to use their own resources and entrepreneurial abilities to connect (via the small horizontal arrow) to long-run, sustainable food security for themselves. With success in achieving the objectives in the upper right and lower left boxes, market forces gradually — over decades — bring the poor above a threshold of vulnerability and into sustained food security (connecting macro to micro and short run to long run).

By contrast, a world of heightened instability — in global finance and the world food economy — forces policymakers to concentrate their resources in the upper left box, where they are trying to stabilize domestic food prices and

keep the poor from slipping deeper, irreversibly, into poverty. Important as this effort is, it clearly comes at the expense of significant progress out of the short-run box on the upper left, both to the right and from top to bottom. From this perspective, instability is a serious impediment to achieving long-run food security. In a world of greater instability, induced by climate change, by new financial arrangements, even by the pressures from new political voices, food security is likely to suffer.

How can we fix this? The first step is to understand how the world of food security has changed in the past several decades. Where has the food system come from over the past half century or so (roughly my own professional life)?

- (1) There was a broad political mandate in Asia to feed both urban and rural populations, a mandate not seen as clearly in much of Africa.
- (2) A technological revolution in rice and wheat was coupled with (reasonably) good policies and public investments in rural infrastructure to make this mandate (largely) possible.
- (3) Rapid, inclusive economic growth (resulting largely from [1] and [2]) gave (most) Asian households access to the food in their fields and markets.

What has changed is the structural transformation: it has been driven by these processes (and the changing role of rice in the economy). Asia is now richer, more urban, better connected both within each country and across borders, and it is much better fed. These changes have dramatic implications going forward; four key issues need to be addressed.

First, farm size is still declining, with an especially worrisome rise in the number of “micro farms”, those under 0.2–0.3 hectares. Can such small farms survive by adopting new technology?

Second, integrated technologies combining new genetics, agro-chemicals, and management techniques will increasingly be the route to higher crop (and livestock) productivity. But these integrated technologies have lots of science built into them, are very knowledge intensive in the use of the inputs, and require highly sophisticated management techniques to be successful. Thus these integrated technologies may have important scale economies in total, even when the individual components appear to be scale neutral.

Third, reaching small farmers with modern inputs and buying their increasingly diversified outputs will require a new, information-intensive marketing system — a supply chain if you like. Supermarkets, because they have access to the consumers who are buying these outputs, will drive these new supply chains.

Finally, perhaps the toughest question is “scalability”. That is, as donors and policymakers, how do we learn what works for small farmers? How do we get their output to demanding consumers? And how do we accomplish these tasks on an economy-wide scale? Historically, only market processes have managed to be scalable, but these market processes do not necessarily care whether small farmers survive or poor people get enough to eat.

There is our challenge!

C. Peter Timmer
Professor Emeritus, Harvard University

Note

1. This foreword draws on my paper “Structural Transformation and Food Security in Asia: Small Farmers, Modern Supply Chains, and the Changing Role of Rice in Asia” (paper presented at the meeting of the International Economics Association [IEA], Tsinghua University, Beijing, 4–8 July 2011).

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PREFACE

Financial crises after financial crises have occurred, but for many countries the last one, the 2008–09 global recession, has been the deepest since the 1930s great depression. This book started with an objective to understand the impact of high inflation on poverty and food security in Southeast Asia and authors had been contacted to write on this subject. However, the global economy moved quickly into recession in 2008. Global recession has also come to Southeast Asia.

Anticipating that the impact of global recession would be more severe than that of high inflation in Southeast Asia, we refocused the title of the book to *Poverty and Global Recession in Southeast Asia*. A closed-door conference presenting and discussing the first draft of the papers was conducted on 25–26 March 2009. Some important points from the conference, particularly related to Southeast Asia in general, were presented by Aris Ananta and Richard Barichello, the coordinators of the project, in a public seminar “Poverty, Food, and Global Recession in Southeast Asia” on 27 March 2009, the following day after the conference. In the public seminar, Tan Ern Ser and Yothin Jinjarak, also paper writers in the conference, made presentations on issues related to Singapore. Both the closed door conference and public seminar were conducted by ISEAS in Singapore.

During the revision and editing of the chapters, world financial and economic development continued to change. By early 2010, people were already optimistic that the global recession was over or would be over soon. However, the evidence was mounting that the poor had suffered and were still suffering from the current global crisis, even if the richer individuals may have recovered. Therefore, an important question arises, “Is the crisis really over for the poor?”

The book is not intended to present the most recent events of the Southeast Asian economy or the situation of the poor and food security. Instead, this book is a modest attempt to contribute a better understanding on poverty and food security in Southeast Asia during the recent global recession considering both recent developments and the previous major crisis of 1997–98.

We are very thankful to Dr Collin Duerkop, the then Regional Representative for Southeast Asia, Konrad Adenauer Stiftung (KAS), Singapore, who has funded the conference and public seminar. We would also like to acknowledge the full support of Ambassador K. Kesavapany, Director of ISEAS, for this project. We also appreciate the contributions of Dr Chin Kin Wah, the then Deputy Director of ISEAS, who had continuously encouraged interdisciplinary studies, such as the one conducted for this book. We appreciate the hard work of the administrative staff of ISEAS, including Tee Teo Lee and Karthi Nair, for organizing the conference and seminar. Without the hard work and careful copy-editing by the Publications Unit of ISEAS, particularly Stephen Logan, the book would have never been published. We are also indebted to the chairpersons of the conference (Dr Chin Kin Wah, Dr Terence Chong, Dr Tin Maung Maung Than, Dr Aekapol Chongvilaivan, Dr Melanie S. Milo, and Ambassador Jørgen Ørstrøm Møller) as well as the participants in both the conference and public seminar for their comments for the improvement of the papers.

And last but not least, we owe much to the important contributions of all the paper writers to this book who have made this book what it is.

Aris Ananta
Richard Barichello

CONTRIBUTORS

Aris Ananta is Senior Research Fellow at the Institute of Southeast Asian Studies, Singapore

Dang Nguyen Anh is the Director of Vietnam Academy of Social Sciences (VASS), Hanoi, Vietnam

Evi Nurvidya Arifin is Visiting Research Fellow at the Institute of Southeast Asian Studies, Singapore

Sawarai Boonyamanond is lecturer at the Institute for Population and Social Research, Mahidol University, Thailand

Richard Barichello is Professor at the University of British Columbia (UBC), Vancouver, Canada

M. Chatib Basri is Senior Research Associate at the Institute for Economic and Social Research (LPEM), Faculty of Economics, University of Indonesia, Jakarta, Indonesia

Chan Sophal is President, Cambodian Economic Association, Phnom Penh, Cambodia

Aekapol Chongvilaivan is Fellow and Coordinator of the Regional Economic Studies Programme at the Institute of Southeast Asian Studies, Singapore

Yothin Jinjarak is Senior Lecturer, Financial and Management Studies, School of Oriental and African Studies, University of London.

Asan Ali Golam Hasan is Associate Professor at the Department of Economics and Agribusiness and Dean of the School of Economics, Finance and Banking, College of Business, Universiti Utara Malaysia, Kedah, Malaysia.

Ling How Kee is Associate Professor at the Faculty of Social Sciences, Universiti Malaysia Sarawak (UNIMAS), Malaysia

Muszafarshah B. Mohd Mustafa is Senior Lecturer at the Department of Economics and Agribusiness, School of Economics, Finance and Banking, College of Business, Universiti Utara Malaysia, Kedah, Malaysia.

Arianto A. Patunru is Head of the Institute for Economic and Social Research (LPEM), Faculty of Economics, University of Indonesia, Jakarta, Indonesia

Sureeporn Punpuing is Associate Professor at the Institute for Population and Social Research, Mahidol University, Bangkok, Thailand

M. Ramesh is Chair Professor of Governance and Public Policy at the Hong Kong Institute of Education and Visiting Professor of Social Policy at the Lee Kuan Yew School of Public Policy, National University of Singapore.

Tan Ern Ser is Associate Professor at the Department of Sociology and Faculty Associate, Institute of Policy Studies, Lee Kuan Yew School of Public Policy, National University of Singapore (NUS), Singapore

Myo Thant is Principal Regional Cooperation Specialist, Regional and Sustainable Development Department, Asian Development Bank, Manila, Philippines

Jorge V. Tigno is Associate Professor at the Department of Political Science, University of the Philippines (UP), Diliman, Quezon City, Philippines

Wong Swee Kiong is Senior Lecturer at the Department of Development Studies, Faculty of Social Sciences, Universiti Malaysia Sarawak (UNIMAS), Sarawak, Malaysia