

17 Poverty and inequality

International poverty estimates were revised in 2008. As a result, more poor people were judged to be living below the international absolute poverty line than previously thought. Of these, 950 million were in Asia and the Pacific.

The Asia-Pacific region has had some striking successes in poverty reduction. Of the 24 countries in the region for which data are available from both the 1990s and the 2000s, 20 managed to reduce the share of their population living below the revised international poverty line – \$PPP 1.25 at 2005 prices. No recent poverty data are available for the Pacific island economies – though it is possible that these and other countries have more recent data than are presented in this *Yearbook*.

Among the subregions for which data are available, poverty has fallen everywhere, except in North and Central Asia. In East and North-East Asia, between 1990 and 2005, the proportion of the population living on less than \$1.25 a day declined from 60.1 to 15.9 per cent. In this subregion the trend is dominated by China. In Mongolia, the only other country in the subregion for which data are available, poverty actually increased.

Although less spectacularly than in China, poverty also declined in South-East Asia. The best achievements were in Indonesia, where between 1990 and 2005 poverty declined from 54.3 to 21.4 per cent, and in Viet Nam where between 1992 and 2006 the rate fell from 63.7 to 21.5 per cent.

Revision of poverty estimates in 2008

The revision of poverty estimates follows an expanded 2005 round of collection of comparative prices of goods and services (such as food, housing, and transport) in countries participating in the International Comparison Programme (ICP). The ICP collected prices for an internationally comparable basket of goods and services in a large number of countries. This served as the basis for adjusting market exchange rates for differences in purchasing powers at the national level, yielding exchange rates known as purchasing power parities (PPPs). Technically, a PPP is the conversion rate for a given currency into a reference currency (\$US) that assures parity in terms of purchasing power over commodities, whether or not they are traded internationally. Global economic comparisons, including poverty, have used PPP rates rather than market exchange rates, because market exchange rates reflect purchasing power in terms of internationally traded goods but not non-traded commodities, including services, as well as certain goods like food staples.

The new poverty estimates were calculated by the World Bank on the basis of a revised international poverty line set at \$1.25 per day (2005 PPP prices), which represents the average of the national poverty lines of the world's poorest 15 countries. Two of these 15 countries were from Asia and the Pacific. PovcalNet (<http://go.worldbank.org/NT2A1XUWP0>) – a website maintained by the World Bank – allows readers to calculate poverty estimates based on grouped income data for regions as well as for countries, using various poverty lines.

The new estimates are more reliable than the previous ones dating from 1993, for three reasons: (i) improvements in the design, implementation and analysis of the ICP price surveys provide better estimates of the cost of living in developing countries; (ii) the international poverty line has been recalculated on the basis of national poverty lines for the poorest 15 countries in terms of consumption per capita; and (iii) a much larger number of household surveys were used as a basis for estimating poverty.

However it is not easy to capture adequately the prices actually paid by the poor. Even in the new round, price data were often collected primarily from urban areas, which may lead to a bias, as in most developing countries rural areas tend to have lower prices. Another problem lies in selecting weights for household consumption; usually this means using the consumption pattern of the general population rather than that of the poor. In order to capture the consumption basket of the poor more accurately, during the latest ICP round the Asian Development Bank conducted poverty-specific price surveys in 16 countries in Asia and the Pacific. While the re-weighting produced only minor changes in the poverty estimates, ADB found that there were changes resulting from changing the product list to account for the consumption of the poor (see ADB 2008).

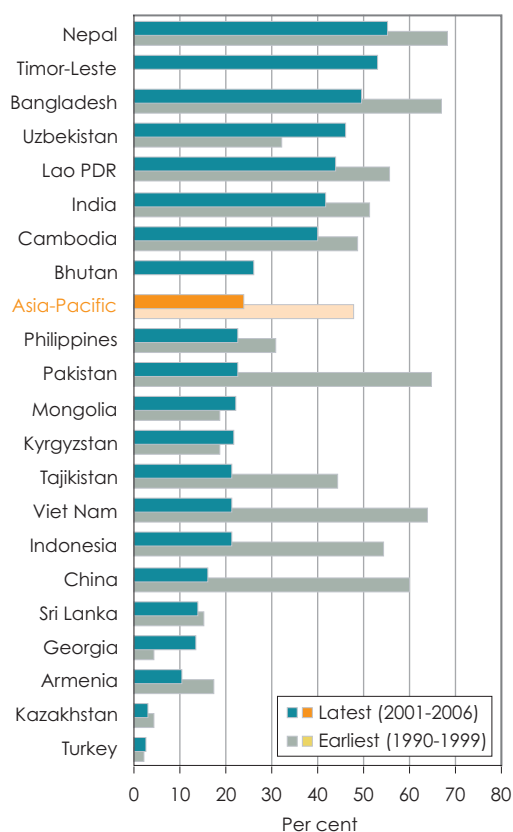
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Poverty rates also went down in South and South-West Asia. One of the most striking achievements was in Pakistan where between 1990 and 2004 the share of the population living on less than \$1.25 a day declined from 64.7 to 22.6 per cent. Other countries in the subregion, except Turkey, also made progress, if more slowly than Pakistan. In India, for instance, between 1990 and 2005 the poverty rate fell from 51.3 to 41.6 per cent in 2005. Since these countries have large populations, falling rates mean that many millions of people are escaping poverty.

In North and Central Asia, the situation is more mixed. For the subregion as a whole, poverty increased in the 1990s and declined somewhat in the 2000s. Armenia, Azerbaijan, Kazakhstan, the Russian Federation and Tajikistan saw a decrease between the 1990s and the 2000s, while in Georgia, Kyrgyzstan and Uzbekistan poverty increased.

Figure 17.1

Percentage of the population living below \$1.25 a day, Asia and the Pacific, 1990-2006



The data presented so far refer to the international poverty line of 1.25 \$PPP per day. This is useful for comparing rates across countries. But for individual countries it is more useful to consider national poverty lines. These have the advantage that they will better reflect local circum-

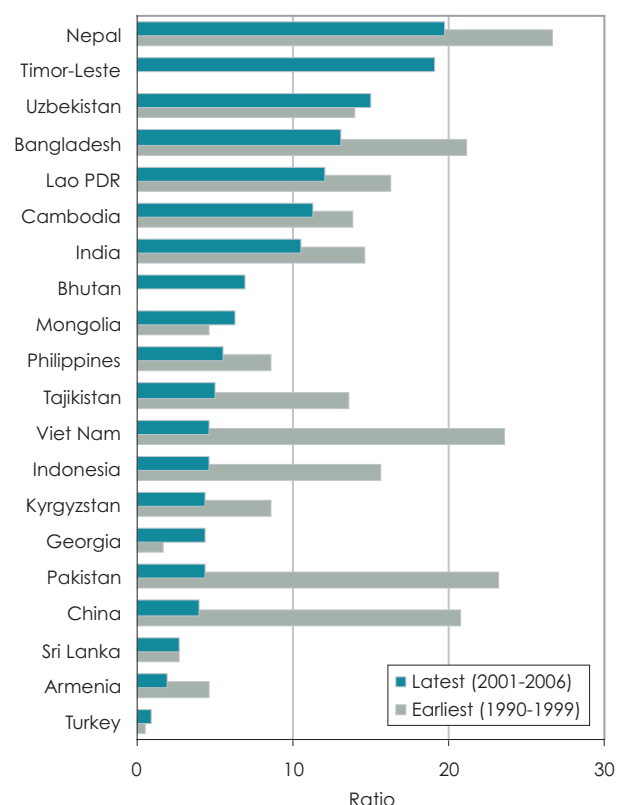
stances, being based on the official minimum standard of living. However they are not comparable across countries and may not even be comparable over time so assessments based on national poverty lines are likely to differ from international poverty figures.

Of the countries for which data are available from both the early 1990s and the 2000s, most have reduced significantly the share of their population living below the national poverty line. The exceptions are Mongolia and Indonesia where there was little change.

Another important measure is the poverty gap ratio – which is based on the international poverty line and measures the extent of extreme poverty indicating how far the extreme poor fall below the poverty line. In most Asian countries during the last decade the poverty gap has narrowed. The highest poverty gap ratios in the region are found in the least developed countries – confirming that the pockets of extreme poverty are concentrated among the poorest and most vulnerable countries. Among the countries that provide data, the highest poverty gap ratios are in Nepal, with 20 per cent, and Timor-Leste with 19 per cent. Ratios are also high

Figure 17.2

Poverty gap ratio (based on international poverty line), Asia and the Pacific countries, earliest and latest available values for the period 1990-2006



in Bangladesh with 13 per cent, Cambodia with 11 per cent and the Lao People's Democratic Republic with 12 per cent – even if these ratios have declined over the past decade. In Central Asia, the highest poverty gap ratio is in Uzbekistan at 15 per cent. No country in the Pacific has recent data for this indicator.

Extreme poverty is more pronounced in rural areas, as indicated by poverty gap ratios for China, India and Indonesia disaggregated by urban and rural areas. This is especially true of China: both the urban and rural poverty gaps have declined consistently since the early 1990s, though the rural poor fall much further below the poverty line than do the urban poor. The difference is much less marked in India and Indonesia.

Rural and urban poverty gap ratios of the three largest countries in Asia and the Pacific

		Poverty gap ratio		Gini index	
		Urban	Rural	Urban	Rural
China	1990	5	27	26	31
	2005	0	6	35	36
India	1993	11	14	34	29
	2004	10	11	38	30
Indonesia	1990	15	16	35	26
	2005	4	5	40	30

The region has thus seen fairly consistent declines in the extent and depth of poverty. But the trend is less clear for income inequality. This can be assessed by considering the proportion of national output consumed by the poorest 20 per

cent, or “quintile”, of the population. This proportion ranges from 10.6 per cent in Japan to 4.3 per cent in China. The poorest tend to receive the smallest share in the middle- and higher-income economies such as Turkey, the Islamic Republic of Iran, Thailand, Malaysia and Singapore. On the other hand they do better in, India with 8.1 per cent, Pakistan with 9.1 per cent, and Bangladesh with 8.8 per cent.

A more comprehensive measure of inequality is the Gini index. Nevertheless this gives similar results. On this basis the greatest inequality is in Papua New Guinea (with data from 1996), Nepal, the Philippines, Turkey and Thailand.

Unlike the situation with poverty, for inequality there is no clear regional trend. Since the early 1990s inequality seems to have increased in Sri Lanka, Bangladesh, Nepal, Cambodia and Indonesia, but decreased in the Islamic Republic of Iran, Malaysia and Thailand, as well as in the Russian Federation and in most North and Central Asian countries.

In the region's three largest countries the Gini index has been disaggregated for rural and urban areas. In all three, this indicates that inequality has increased in both rural and urban areas. In India and Indonesia most of the wealthy people are in the cities so inequality is notably lower in rural than in urban areas. In China, the position is different: inequality in the cities and the countryside is now similar, largely because between 1990 and 2005 there was a notable increase in urban inequality as the Gini index increased from 26 to 35.

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Population living below \$1.25 (2005 PPP) a day (percentage)

The proportion of the population living on less than \$1.25 a day at 2005 international prices, adjusted for purchasing power parity (PPP). **Aggregates:** Aggregates have been calculated through World Bank's PovcalNet. **Source:** World Bank, PovcalNet (online database, accessed on 12 November 2008).

Population living below the national poverty line (percentage)

The national poverty rate is the proportion of the population living below the national poverty line. The figures are not comparable across countries and may not be comparable over time within a country. **Aggregates:** None. **Source:** United Nations Millennium Development Goals Indicators (online database, accessed on 29 September 2008).

Poverty gap (ratio)

Poverty gap is the mean shortfall from the poverty line (counting the non-poor as having zero shortfall), expressed as a percentage of the poverty line. This measure reflects

the depth of poverty among those who fall below the international poverty line. Value 0.5 per cent means that the poverty gap for that particular country is 0.5 per cent or less. **Aggregates:** None. **Source:** World Bank, PovcalNet (online database, accessed on 12 November 2008).

Share of poorest quintile in income or consumption (percentage)

Percentage share of income or consumption that accrues to subgroups of population indicated by deciles or quintiles. **Aggregates:** None. **Source:** United Nations Millennium Development Goals Indicators (online database, accessed on 29 September 2008).

Gini index (index)

Gini coefficient multiplied by 100. The extent to which the distribution of income (or consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. An index value of 0 corresponds to perfect equality (all earn the same income) and a value of 100 to perfect inequality (one person receives all the income). **Aggregates:** None. **Source:** World Bank, World Development Indicators (online database, accessed in May 2008).

17.1 Poverty

	Population living below \$1.25 (2005 PPP) a day				Population living below the national poverty line	
	Percentage				Percentage	
	1990	1996	2002	2005	Earliest	Latest
East and North-East Asia	60.1	36.3	28.3	15.9		
China	60.2	36.4	28.4	15.9	6.0 (96)	4.6 (98)
DPR Korea						
Hong Kong, China						
Japan						
Macao, China						
Mongolia		18.8	15.5	22.4	36.3 (95)	36.1 (02)
Republic of Korea						
South-East Asia	39.2	35.1	25.5	18.9		
Brunei Darussalam						
Cambodia	48.6 (94)			40.2 (04)	47.0 (94)	35.0 (04)
Indonesia	54.3	43.4	29.3	21.4	17.5 (96)	16.7 (04)
Lao PDR	55.7 (92)	49.3 (97)	44.0		45.0 (93)	33.0 (03)
Malaysia	1.6 (92)	2.1 (95)		0.5 (04)		
Myanmar						
Philippines	30.7 (91)	21.6 (97)	22.5	22.6 (06)	32.1 (94)	25.1 (97)
Singapore						
Thailand	5.5 (92)	1.9	0.7	0.4 (04)	32.5 (92) ¹	12.0 (04) ¹
Timor-Leste			52.9 (01)			
Viet Nam	63.7 (92)	49.7 (98)	40.1	21.5 (06)	37.4 (98)	28.9 (02)
South and South-West Asia	47.0	42.3	38.7	35.5		
Afghanistan						
Bangladesh	66.8 (91)	59.4 (95)	57.8 (00)	49.6	58.8 (92) ²	40.0 (05) ²
Bhutan				26.2 (03)		
India	51.3	46.6	43.9	41.6	36.0 (94)	27.5 (05) ³
Iran (Islamic Rep. of)	3.9	1.3 (98)		1.5		
Maldives						
Nepal		68.4 (95)		55.1 (03)	41.8 (96)	30.9 (04)
Pakistan	64.7	48.1	35.9 (01)	22.6 (04)	28.6 (93)	22.3 (06) ⁴
Sri Lanka	15.0	16.3 (95)	14.0		20.0 (91)	15.2 (07) ⁵
Turkey	2.1 (94)		2.0	2.7	28.3 (94)	27.0 (02)
North and Central Asia	2.9	8.1	8.4	6.6		
Armenia		17.5	15.0	10.6 (03)	55.1 (99)	50.9 (01)
Azerbaijan		15.6 (95)	6.3 (01)	0.0	68.1 (95)	49.6 (01)
Georgia		4.5	15.1	13.4	52.1 (02)	54.5 (03)
Kazakhstan	4.2 (93)	5.0	0.5 (01)	3.1 (03)	34.6 (96)	15.4 (02)
Kyrgyzstan	18.6 (93)	31.8 (98)	34.0	21.8 (04)	47.6 (01)	43.1 (05)
Russian Federation	2.8 (93)	3.5	0.3	0.2	30.9 (94)	19.6 (02)
Tajikistan		44.5 (99)		21.5 (04)		74.9 (99)
Turkmenistan	63.5 (93)	24.8 (98)				
Uzbekistan		32.1 (98)	42.3	46.3 (03)		27.5 (00)
Pacific						
Australia						
American Samoa						
Cook Islands						
Fiji						
French Polynesia						
Guam						
Kiribati						
Marshall Islands						
Micronesia (F.S.)						
Nauru						
New Caledonia						
New Zealand						
Niue						
Northern Mariana Is.						
Palau						
Papua New Guinea		35.8			37.5 (96)	
Samoa						
Solomon Islands						
Tonga						
Tuvalu						
Vanuatu						
Asia and the Pacific	47.8	36.5	30.9	23.9		
LLDC						
LDC						
ASEAN	39.1	35.0	25.5	18.8		
ECO						
SAARC						
Central Asia						
Pacific island dev. econ.						
Low-income	47.1	49.1	39.8	27.6		
Middle-income	47.8	30.6	23.4	14.2		
High-income						
Other world regions						
Africa	47.2	48.5	45.9	42.5		
Europe	1.0	1.5	1.0	0.4		
Latin America & Carib.	9.8	10.8	11.0	8.4		
North America						
Other countries/areas						
World	41.7	34.1	30.0	24.5		

¹ Source: National Statistical Office, Core Economic Indicators of Thailand 2005; ² Source: Ministry of finance of Bangladesh; ³ Source: Ministry of Finance of India; ⁴ Source: Ministry of Finance of Pakistan; ⁵ Source: Central Bank of Sri Lanka, Annual report 2007.

17. Poverty and inequality

17.2 Inequalities

	Poverty gap ratio				Share of poorest quintile in income or consumption, %		Gini index			
	1990	1996	2002	2005	Earliest	Latest	1990	1996	2002	2005
East and North-East Asia										
China	20.7	10.7	8.7	4.0		4.3 (04)	29.2	32.2	36.3	35.4
DPR Korea										
Hong Kong, China					5.3 (96)					
Japan					10.6 (93)					
Macao, China										
Mongolia		4.6 (95)	3.6	6.2	7.3 (95)	7.5 (02)		33.2 (95)	32.8	33.0
Republic of Korea						7.9 (98)				
South-East Asia										
Brunei Darussalam										
Cambodia	13.8 (94)			11.3 (04)	8.0 (94)	6.8 (04)	38.3 (94)			41.9 (04)
Indonesia	15.6	11.4	6.0	4.6	8.3 (93)	7.1 (05)	29.0	31.2	29.9	34.5
Lao PDR	16.2 (92)	14.9 (97)	12.1		9.6 (92)	8.1 (02)	30.4 (92)	34.9 (97)	32.6	
Malaysia	0.1 (92)	0.3 (95)		0.1 (04)	4.6 (92)	4.4 (97)	47.7 (92)	48.5 (95)		37.9 (04)
Myanmar										
Philippines	8.6 (91)	5.3 (97)	5.5 (00)	5.5 (06)	5.9 (91)	5.4 (03)	43.8 (91)	46.2 (97)	46.1 (00)	44.0 (06)
Singapore					5.0 (98)	5.0 (98)				
Thailand	0.4 (92)	0.1	0.0	0.0 (04)	5.6 (92)	6.3 (02)	46.2 (92)	43.4	42.0	42.5 (04)
Timor-Leste			19.1 (01)						39.5 (01)	
Viet Nam	23.6 (92)	15.1 (98)	11.2	4.6 (06)	7.7 (93)	7.1 (04)	35.7 (92)	35.5 (98)	37.6	37.8 (06)
South and South-West Asia										
Afghanistan										
Bangladesh	21.1 (91)	17.9 (95)	17.3 (00)	13.1	9.4 (92)	8.8 (05)	26.2 (91)	30.6 (95)	30.7 (00)	31.0
Bhutan				7.0 (03)						46.8 (03)
India	14.6	12.4	11.4	10.5		8.1 (04)	30.9	30.7	32.0	32.5
Iran (Islamic Rep. of)	1.0	0.2 (98)		0.3	5.2 (90)	6.5 (05)	43.6	44.1 (98)		38.3
Maldives										
Nepal		26.7 (95)		19.7 (03)	7.5 (96)	6.0 (04)		37.7 (95)		47.3 (03)
Pakistan	23.2	11.7	7.9 (01)	4.4 (04)	8.1 (91)	9.1 (05)	33.2	28.7	30.4 (01)	31.2 (04)
Sri Lanka	2.7	3.0 (95)	2.6		9.0 (90)	7.0 (02)	32.5	35.4 (95)	41.1	
Turkey	0.5 (94)		0.5	0.9	5.8 (94)	5.3 (03)	41.5 (94)		42.7	43.2
North and Central Asia										
Armenia		4.7	3.1	1.9 (03)	5.4 (96)	8.5 (03)		44.4	35.7	33.8 (03)
Azerbaijan		4.4 (95)	1.1 (01)	0.0	6.9 (95)	7.4 (01)		35.0 (95)	36.5 (01)	16.8
Georgia		1.7	4.7	4.4	6.1 (96)	5.4 (05)		37.1	40.3	40.8
Kazakhstan	0.5 (93)	0.9	0.1 (01)	0.5 (03)	7.5 (93)	7.4 (03)	32.7 (93)	35.3 (96)	31.3 (01)	33.9 (03)
Kyrgyzstan	8.6 (93)	9.0 (98)	8.8	4.4 (04)	2.5 (93)	8.9 (03)	53.7 (93)	36.0 (98)	31.7	32.9 (04)
Russian Federation	1.3 (93)	1.8	0.1	0.0	4.4 (93)	6.1 (02)	48.3 (93)	46.2	35.7	37.5
Tajikistan		13.7 (99)		5.1 (04)	8.1 (99)	7.8 (04)		31.5 (99)		33.6 (04)
Turkmenistan	25.8 (93)	7.0 (98)			6.9 (93)	6.1 (98)	35.4 (93)	40.8 (98)		
Uzbekistan		13.9 (98)	12.4	15.0 (03)	7.3 (93)	7.2 (03)		45.4 (98)	34.6	36.7 (03)
Pacific										
Australia					5.9 (94)					
American Samoa										
Cook Islands										
Fiji										
French Polynesia										
Guam										
Kiribati										
Marshall Islands										
Micronesia (F.S.)										
Nauru										
New Caledonia										
New Zealand						6.4 (97)				
Niue										
Northern Mariana Is.										
Palau										
Papua New Guinea		12.3			4.5 (96)			50.9		
Samoa										
Solomon Islands										
Tonga										
Tuvalu										
Vanuatu										
Asia and the Pacific										
LLDC										
LDC										
ASEAN										
ECO										
SAARC										
Central Asia										
Pacific island dev. econ.										
Low-income										
Middle-income										
High-income										
Other world regions										
Africa										
Europe										
Latin America & Carib.										
North America										
Other countries/areas										
World	14.2	10.8	9.4	7.3						