

Why Asia is Probably Poorer than We Think*

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The first target of the first millennium development goal (MDG) is to halve extreme poverty. It has been interpreted in terms of income poverty alone, relying on counting people living below the arbitrary global poverty line of \$1.25 per day. According to this measure, there has been [a global reduction of income poverty](#) that indicates the target has already been met.

Most of this is due to rapid poverty reduction in Asia, especially East and South-East Asia and more recently in South Asia, so it is generally felt that the region is a success story. But does this rather basic measure leave out some important aspects of poverty?

A [new report from the Asian Development Bank](#) (ADB) makes important points about the nature of poverty in Asia and how this widely used measure is inadequate to capture it. At least three more elements should be factored in: the costs of consumption for poor people; food prices, which have been rising much faster than the general price level, and vulnerability to natural disasters, climate change, economic crises and other shocks.

The \$1.25 poverty line has been questioned by many observers, and it is good that the ADB has joined this chorus. This line is quite arbitrary – it is simply the average value (in purchasing power parity (PPP) terms) of national poverty lines of the world's 15 poorest countries. Most of these are in Africa, with only Tajikistan and Nepal included from Asia.

Based on average prices of a basket of goods in the US, and not necessarily relevant to what poor people in Asia consume, PPP exchange rates are dubious. Rates can respond to price changes that may be irrelevant to the poor and not give enough importance to price changes that really matter to them. And they are unchanging over time, even though consumption patterns tend to shift. PPP exchange rates are also notoriously imperfect because of the infrequency and unsystematic nature of the price surveys that are used to derive them, which can make them quite dated. In 2008, the World Bank revised its global poverty line from \$1.08 to \$1.25 using rates from 2005; it continues to use the 2005 PPPs.

The \$1.25 poverty line is below the national poverty lines of most developing Asian states. According to the ADB, only Afghanistan has a lower line (at \$1.24) while 19 countries set lines at or above \$1.50, and 12 have lines at or above \$2.

The ADB has taken the average poverty lines of the nine least developed countries in Asia and the Pacific (Afghanistan, Bangladesh, Bhutan, Cambodia, Laos, Nepal, Pakistan, the Solomon Islands and Tajikistan). This yields a poverty line of \$1.51 at PPP exchange rates. This sharply increases the estimate of poverty in the region. Using this line, average poverty rates for 2010 increase to 30.5% from the earlier estimate of 20.7% – an increase of nearly half, which increases the number of poor people in Asia by 343 million.

The ADB report looks specifically at food insecurity – also a target in the first MDG. This is based on the recognition that poor people tend to spend proportionately more on food than wealthier people. A general consumer price index that is based on the

consumption profile of a representative consumer would not capture the full impact of rising food prices when these go up faster than other prices.

So what happens when we use food price inflation rather than the general consumer price index to derive poverty lines? For Asia, the 2010 extreme poverty rate went up by nearly one-fifth, from 20.7% to 24.7%. For most countries, incorporating food insecurity increased the poverty lines by about 10% in the post-2005 period. In some cases, the increases were even sharper: 23% in China, 21% in Indonesia, 18% in Vietnam and 16% in Thailand. Once again, this suggests that the number of poor people was underestimated, because just using this method increased the number of extremely poor people in Asia by 140 million in 2010. Significantly, the results also showed that once food insecurity is considered, poverty trends do not always decline, or are linear.

Those who are vulnerable to such climate change and economic shocks can fall into extreme poverty as a result, which means vulnerability should also be incorporated into our recognition of the incidence of poverty. The ADB estimates that 418 million people – or an additional 12% of Asians – were vulnerable to poverty in 2010. The absolute number of vulnerable people has increased over time, rather than fallen. The results for China are particularly striking: once vulnerability is incorporated, its poverty rate increases from the 16% benchmark (\$1.25 poverty line) to 32% in 2005 and from 12% to 29% in 2010. Many other Asian countries show large increases, with poverty rates higher than 50% for Bangladesh and Nepal, and 40% for India.

All this forces us to look more closely at Asia's "exceptional" track record in poverty reduction. If we revise \$1.25 to a more realistic \$1.51, and try to account for food insecurity and rising vulnerability, the estimated poverty rate increases to 49.5% in 2010. This means there were almost 1.75 billion extremely poor people in Asia in 2010, not the 733 million reported. Clearly, there is no cause for complacency about poverty reduction in Asia.

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