The South Asian Development Paradox: Can Social Outcomes Keep Pace with Growth?

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South Asia has one of the fastest growing economies in the world, yet it is also home to the largest concentration of people living in debilitating poverty. How do the two coexist? The paradox of South Asia is that growth has been instrumental in reducing poverty rates, but poverty rates have not fallen fast enough to reduce the total number of poor people, and there remains huge room for improvement in education, health, and women’s economic participation.

South Asia has attracted global attention because of its rapid economic growth. India, which is the largest country in the region and accounts for nearly 80 percent of the regional gross domestic product (GDP), is seen as an emerging economic powerhouse. The region is transitioning well from low-income to middle-income status. Unfortunately, South Asia is also home to the largest concentration of people living in debilitating poverty, social deprivation, and gender disparity.

The geography of poverty has changed over the last two decades (Kanbur and Sumner 2011). More than 70 percent of the world’s poor now live not in low-income, but in middle-income countries. This concentration pattern of the poor living in the middle-income countries is likely to continue into the next decade (Chandy and Getz 2011) and raises two big questions: Has the pace of poverty reduction kept up with that of income growth? Has the pace of improvement in human development and gender parity kept up with that of income growth?

The conventional wisdom is that growth can be sufficient for poverty reduction and social progress; the alternative view is that growth may not be adequate in itself. The growth story is incomplete without improving social indicators such as education, health, and women’s participation in economic activities. Which of these two stories is consistent with the reality of South Asia?

Growth and Poverty

The number of poor people (defined as those living under $1.25 per capita per day at 2005 purchasing power parity) in South Asia increased from 549 million in 1981 to 595 million in 2005 (figure 1). In India, where almost three-fourths of the poor reside, the numbers increased from 420 million in 1981 to 455 million in 2005. South Asia’s poverty rate fell from 60 percent in 1981 to 40 percent in 2005 (for India, see Chen and Ravallion [2009]). But it did not fall fast enough to reduce the total number of poor people.

So have poverty trends in South Asia underperformed the global trends? The answer is no, empirical evidence shows that South Asia matches the global trend. Figure 2 compares change...
in the poverty rate and change in real GDP per capita in South Asian countries with the rest of the world and shows that most South Asian countries are close to the global trend line. India, Sri Lanka, Bangladesh, and China are all extremely close to the regression line; that is, their poverty reduction is precisely in line with what economic growth would predict.

But merely matching the global trends may not be enough for a region that has the largest concentration of poor people. South Asian countries have not done as well as some of the better performers such as China and Thailand.

Why has India—with roughly the same population as China—not performed as well as China? Why is the poverty rate in India higher than in China? The poverty rate depends on income growth and how it is distributed across the population, that is, inequality. India has experienced a slower income growth relative to China, which partly explains the higher poverty rate in India (figure 2).

What about inequality? Is the poverty rate higher in India because inequality increased more rapidly in India compared to China? No: figure 3 shows the annual change in household survey mean consumption (horizontal axis) against the change in inequality (vertical axis). Brazil and Thailand are in the southeast quadrant, indicating that they have experienced a reduction in inequality and an increase in growth. A reduction in inequality makes growth more pro-poor (Bardhan 2009). China, India, and other South Asian countries are in the northeast quadrant—they experienced an increase in growth and an increase in inequality. Inequality in China increased more rapidly than in India. Despite this, China managed to reduce poverty faster than India, because it has grown faster than India. So growth can trump inequality when it comes to poverty reduction.

Source: Ghani (2010).

Figure 1. Increase in Number of Poor People in South Asia

Figure 2. Change in Poverty and Change in GDP, 1977–2007

Source: Ghani (2010).
Growth and Social Progress

What about social outcomes? Comparing the changes in education, health, and gender outcomes in South Asia with the rest of the world, conditional on income growth, results in a mixed story.

Income growth has contributed to improved adult literacy rates in the region, which match the global norm. However, human development lags behind when it comes to secondary and tertiary education, which are becoming more relevant than primary education in an increasingly skill-intensive growth experience in the region (Ghani 2009).

Figure 4 compares the change in secondary education and income for 100 countries for 1990–2006. India’s performance matches the global trend, but it has not performed as well as China. India’s growth enrollment ratio in secondary school is 40 percent, compared with 70 percent in East Asia.

Health indicators too have not kept up with income growth. More than 200,000 people in India die annually from malaria, mainly in poor regions. Similarly, India accounts for one-quarter of global intestinal worm infections, such as hookworm and roundworm, and more than half of the world’s cases of elephantiasis, leprosy, and visceral leishmaniasis (Hotez 2011). The state of Bihar alone accounts for a large percentage of the world’s cases of kala-azar, which affects the bone marrow, liver, and spleen and is associated with high mortality. While much of the global health attention is focused on sub-Saharan Africa, the truth is that India and adjoining Bangladesh, Bhutan, Nepal, Pakistan, and Sri Lanka are just as devastated by neglected tropical diseases.

South Asia has the highest rates of malnutrition and the largest numbers of undernourished children in the world. Undernourished children have higher rates of mortality, have lower cognitive and school performance, and are more likely to drop out of school. Figure 5 compares the level of child malnutrition against real GDP per capita in 2005. Most South Asian countries have much higher child malnutrition rates for their stage of development. Even leading states such as Gujarat and Haryana in India are as much above the regression line as lagging states like Bihar, Chattisgarh, Jharkhand, Madhya Pradesh, and Uttar Pradesh.

Growth and Gender Disparity

Over the last 50 years, women’s roles in the economy and society have been revolutionized. Around the world, the most striking forms of inequality, including discrimination against women in access to education, health, employment, political voice, and resources within the household, have been largely reversed. But dramatic gender inequities persist in South Asia, more so than in low-income countries.

Although gender parity in primary education has improved, dropout rates for girls are higher than those for boys. The dowry tradition puts pressure on families of girls to marry them early, leading to preference for sons. Legal and judicial systems, as well as law enforcement mechanisms, have failed
Figure 4. Comparing Change in Secondary Education and Growth, 1990–2006

Source: Ghani (2010).

Figure 5. Comparing Child Malnutrition Rates in Indian States with Selected Countries, 2005

Source: Ghani (2010).
to address the high incidence of violence against women. Death rates for young girls are much higher than boys. Sex-specific abortions targeting female fetuses are high in the region (Sen 2003).

Higher death rates for young girls and abortions are symptomatic of a general pattern of discrimination against girls. The expectation that girls will grow to do little other than serve their husband’s education reduces parents’ incentives to invest in their daughter’s education. Uneducated women then have few alternatives, and so the expectation becomes self-fulfilling, leaving women in a continuous circle of neglect (Summers 1992). Gender discrimination, which begins at childhood in the region, has significant adverse long-term effects.

Figure 6 plots the change in the share of the female labor force in the total labor force and real GDP growth per capita for 160 countries. It shows that gender disparity in employment is reduced with income growth. Most South Asian countries, with the exception of Bhutan and Nepal, are below the line. So growth in the region seems to be less gender inclusive. In 2008, India’s female labor force participation rate averaged 35 percent, while low-income countries averaged 58 percent. A large proportion of women in the region are employed in the informal sector.

**Conclusion**

The paradox of South Asia is that growth has been instrumental in reducing poverty rates, but poverty rates have not fallen fast enough to reduce the total number of poor people. Poverty reduction in India, China, Sri Lanka, and Bangladesh is precisely in line with what economic growth would predict. Although inequality increased more rapidly in China than in India, China still managed to reduce poverty faster than India due to a faster pace of income growth. The story on social progress—human development and gender disparity—is mixed.

So the conventional wisdom that growth is important for poverty reduction is consistent with the empirical facts in South Asia. Growth creates the fiscal space for poverty reduction. However, the alternative view that growth tends to be incomplete is also consistent with empirical facts. Human development, particularly education and health, has not kept pace with income growth. And growth has not been gender inclusive; women’s participation in economic activities has not kept up with income growth. From the human development and gender equality perspectives, growth in South Asia may not be adequate.

Policy makers should consider direct policy interventions to accelerate social progress, with a particular focus on human development and gender inclusiveness. Greater gender equality can contribute to economic growth and development. Major initiatives to increase the opportunities for women can transform society. If more girls had gone to school a generation ago, millions of infant deaths could have been averted each year, and tens of millions of families could have been more educated, healthier, and happier.

Policy makers should not think of growth separately from social development. Increased social disparities should not be viewed as the price to pay for high growth. Neither should education, health, and gender parities be considered as second-stage reforms. A development response that promotes growth first, and then deals with human misery, is not sustainable. Policies need to be designed so that the redistribution process...
does not feed off public finances, and the growth process itself is not hampered.

About the Author

Ejaz Ghani is an Economic Advisor in the South Asia Region at the World Bank. The author is grateful to Lakshmi Iyer and Ravi Kanbur for their comments, and to Saurabh Mishra for research assistance. This note is based on the work in The Poor Half Billion in South Asia (Ghani 2010), and the views expressed here are those of the author and not the World Bank.

References


