

Economic insecurity in South Asia

Chapter for HDRSA on Human Security

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In South Asia, one of the defining features of material life in recent times must be increasing economic insecurity. This is not something confined to the poor, or those who are conventionally seen as deprived and marginalised - rather, it extends across the spectrum to cover even the wealthy and privileged groups in our societies. The greater macroeconomic tendency towards volatility of incomes and economic activity, the relative decline in regular employment, and the absence of stable and assured public provision of a large range of goods and services all mean that every citizen is affected, from the migrant daily wage labourer or small peasant to the metropolitan professional.

This insecurity is reflected in various dimensions, and is related to causes both external and internal to the economies of the region. At one level, what is true of South Asia is also true across the globe, especially in the developing world. But there are particular processes which have resulted from policies employed by governments within South Asia, which have interacted with the political economy configurations to create our own specificities.

Some of the main forms of economic insecurity are briefly outlined in the first section, which addresses the issues in each of the five countries of Bangladesh, India, Pakistan, Nepal and Sri Lanka. These forms include poverty and widening gaps in income inequality; food insecurity; the changed nature of employment and unemployment; lack of social safety nets and public provision; migration and its associated effects. The second section tries to identify some of the more important causes of the increased economic insecurity.

I. Economic insecurity in South Asia

Bangladesh

For nearly three decades now, the economy of Bangladesh has been growing at slightly more than 4 per cent, and per capita income growth even accelerated in the 1990s compared to the previous decades. In the 1980s, per capita GDP had grown slowly at the rate of about 1.6 per cent per annum. In the first half of the 1990s, the growth rate accelerated to 2.4 per cent and further to 3.6 per cent in the second half of the decade.

Of course this increase in the per capita growth was mainly because of the demographic transition involving declines in rates of population growth (from 2.1 per cent in 1990 to only 1.6 per cent in 2000), since there was no apparent break in the trend rate of growth of around 4 per cent over the entire period. However, there was clearly greater macroeconomic stability in terms of reduced rates of inflation (from an average of 9.9 per cent per annum in the early 1980s to an average of 5.6 per cent per annum by the end of the 1990s).

However, this aggregate economic expansion has had less apparent direct impact on poverty reduction. It is certainly the case that the long-term trends in poverty show notable progress since Independence, from 71 per cent in 1973-74 to around 45 per cent in 2000.

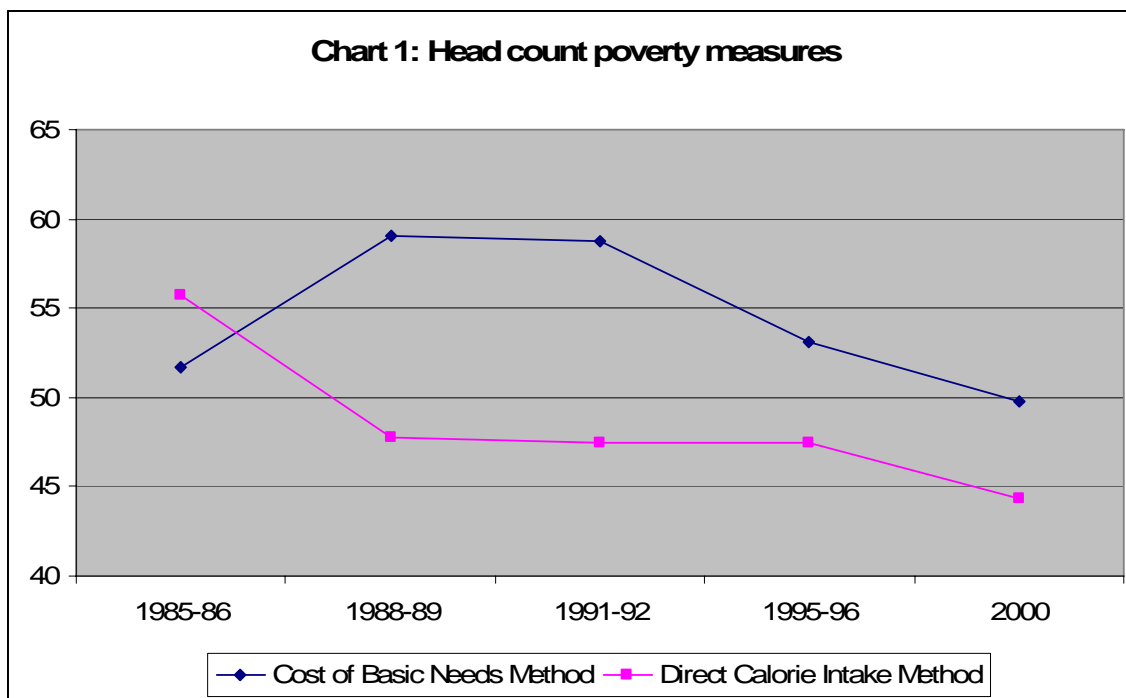
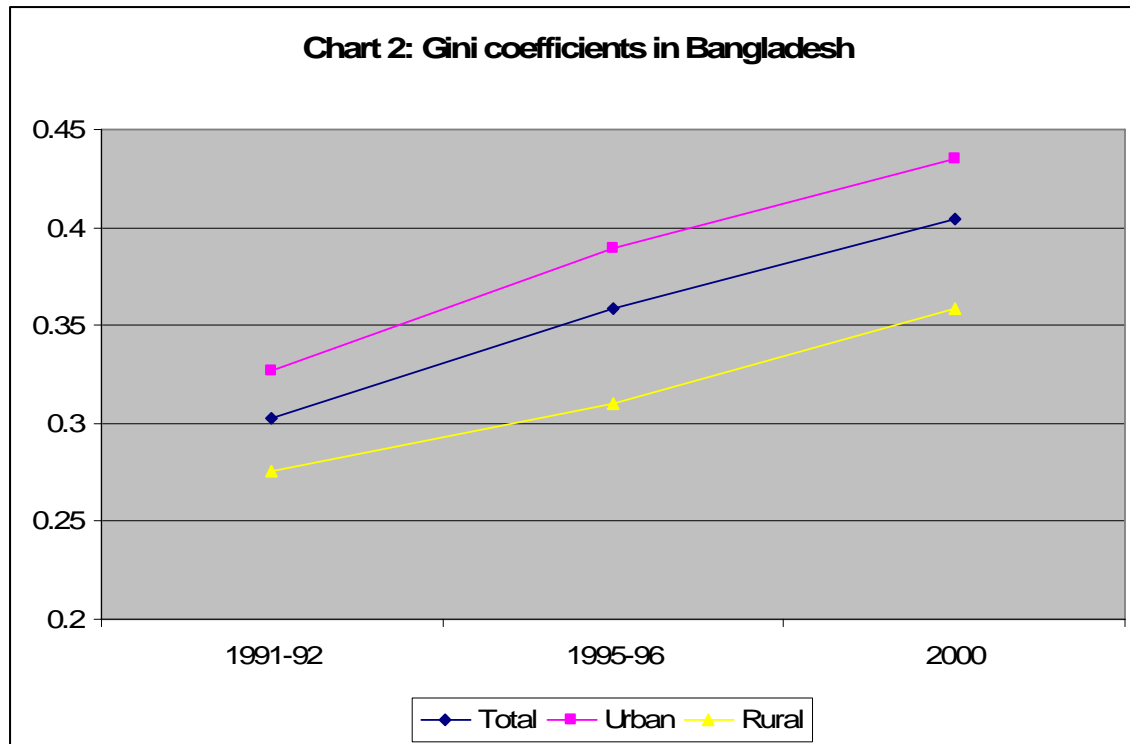


Chart 1 provides estimates of poverty according to two different methods: in terms of a poverty line derived from the cost of basic needs, and in terms of direct calorie intake. While some reduction in the incidence of poverty is evident, the decline in the later part of the period was less rapid than occurred during the early 1990s. Clearly, the reduction in poverty has not been commensurate with the expectations generated by the macroeconomic pattern of relatively stable and non-inflationary growth. Some of the reason for this is probably the substantial increase in inequality over this period, as evident from Chart 2. The main source of increasing inequality was the increasingly unequal distribution of both non-farm income and remittance income. The increase in rural inequality over this period was driven by the growth and distribution of income from a handful of sources: non-farm enterprise; salary from non-farm employment; remittances, especially from abroad; and property income. These sources became highly concentrated and inequalising over the nineties

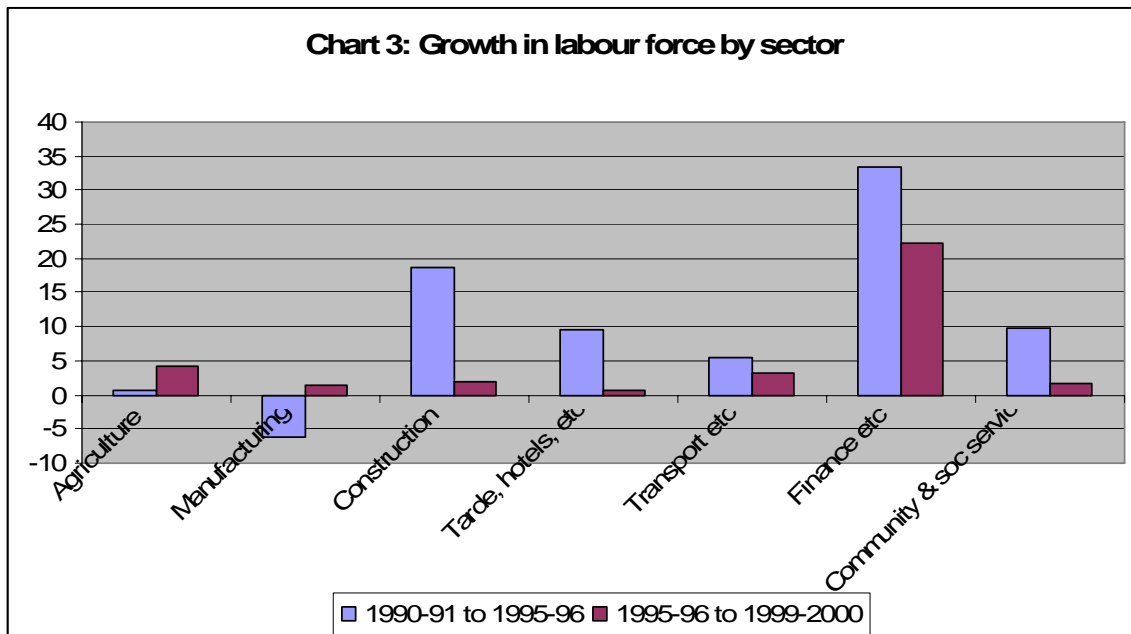


The outward-looking macroeconomic policy pursued by Bangladesh in the recent past did succeed in stimulating some parts of the economy, especially readymade garments and fisheries which were the most rapidly growing activities in the 1990s. But these activities still have a relatively low weight in the economy, and most (at least two-thirds) of the incremental growth in the 1990s originated from the non-tradable sectors - mainly, services, construction and small-scale industry. The demand stimulus for this came from three major sources - the increase in crop production in the late 1980s, accelerated flow of workers' remittance from abroad and incomes generated by the readymade garments industry.

However, these sectoral contributions of changing GDP were not exactly matched by changes in employment patterns. Chart 3 show the extent of growth of labour force in different sectors over the two halves of the decade of the 1990s. The most rapid growth has been in financial services, but these still constitute a very small part of total employment. Manufacturing employment first fell and then grew only marginally. While the new export sector of ready made garments has provided an important source of new employment (especially for women) total

employment in aggregate manufacturing has actually declined, in both relative and absolute terms. There has been significant deindustrialisation, particularly in the traditional sectors, which have suffered from import penetration.

However, agriculture has shown substantial increase in employment generation to around 4 per cent per annum in the second half of the decade, reflecting the impact of various policy measure offering more incentives to cultivators from the mid-1980s onwards. While construction increased its share of GDP rapidly, the rate of employment generation decelerated in this sector in the second half of the 1990s, along with other services sectors.



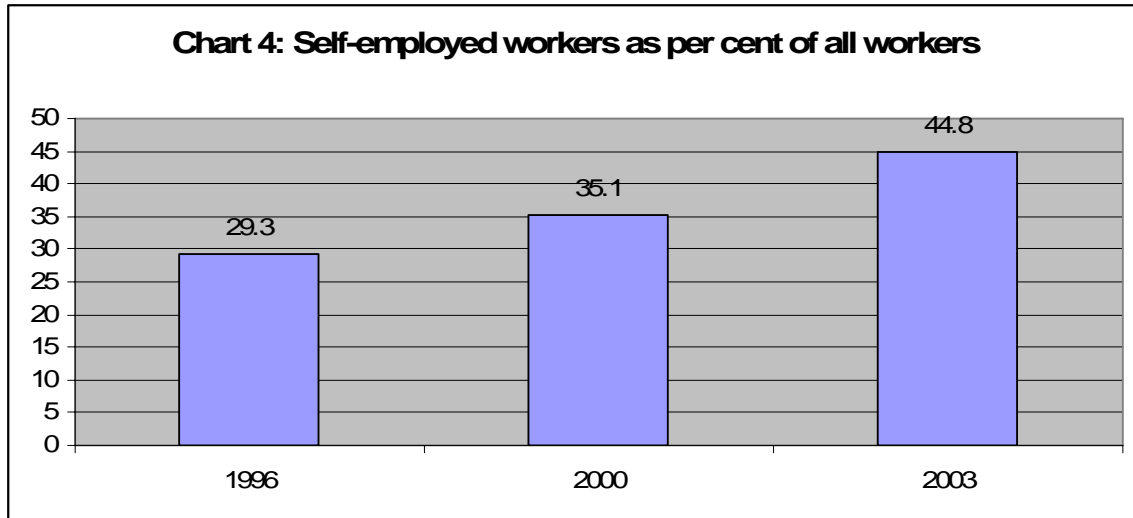
The sectoral allocation pattern of public development spending has undergone some significant changes in the last two decades, reflecting the changing role of the government under the economic reforms. Allocations have fallen appreciably for a number of directly productive sectors - most notably, manufacturing industry, water resources, and energy, and agriculture, and increased for transport and communication, rural development, education and health.

The share of industrial employment declined from around 12-13 to 10 per cent between 1990 and 2000, with manufacturing employment accounting for a meagre 7.5 per cent (1995-96). Over the decade, employment in

manufacturing fell in both absolute and relative terms, indicating a process of deindustrialisation in the Bangladesh economy (Muqtada, 2003). While employment in the sector has declined, its relative contribution to GDP has increased, implying a possible rise in relative productivity. The decline in aggregate manufacturing employment occurred despite the substantial growth of jobs in the new, export-oriented industries, especially in the ready made garments sector. Declining employment is one important reason for the high and rising inequality within urban areas. Employment elasticity growth has been a dismal -0.5 per cent between 1990 and 2000.

Open unemployment rose from 1.8 per cent of the labour force to as much as 4.9 per cent, and was as high for women as for men, while underemployment in 2000 was estimated to be very high at around 31 per cent. What is also of concern is the dramatic increase in the ratio of self-employed to total workers, as indicated in Chart 4. In general the shift to self-employment in non-agriculture tends to be less rewarding in income terms for the poor, than the shift to regular work, and definitely implies more insecurity because of the uncertainty of self-employed incomes of small producers and service providers. However, there has been only a very slight, almost negligible increase in the share of regular employment.

So it is apparent that one crucial link to ensure more rapid poverty reduction - the generation of productive employment - has simply not been operating in a way that would show more effective results. Rather, employment elasticities of output growth have been low or falling in most sectors, and the persistence of large-scale underemployment implies the continued proliferation of low productivity jobs, most typically now in the services sector.



The high presence of micro-credit delivery systems in Bangladesh has operated to provide a cushion for poor households in case of shocks such as crop failures, floods and other natural disasters, etc. To that extent it has certainly provided an important form of security that has mitigated the more adverse effects of income volatility because of other causes. It has also helped to improve the relative position of women. However, the basic features of micro-credit (short-term, relatively small amounts, groups lending pressure for prompt repayment) mean that it has not contributed much to asset creation among the poor, or to sustained employment generation.

In fact, the poverty reduction that has occurred may be related more to other forms of public expenditure. The expansion of public transport infrastructure, especially roads networks in the 1980s, may have contributed to subsequent rural development which in turn assisted some of the reduction of poverty in that later period.

However, trade liberalisation had the counter effect of reducing the viability of many small producers, so the net effect of all the policy changes over the period on the economic security of the poor in this period is not clear. It is likely that some of the effects of openness were positive (as in the garments industry) others were adverse for livelihood security and therefore poverty, and these were to some extent mitigated by the spread of public transport networks and the availability of micro-credit.

Bangladesh has shown rapid progress in its health indicators since the early 1990s. Infant mortality rate has fell dramatically from 92 in 1991 to 57 in 1998. Life expectancy also increased marginally over the nineties and stood at around 60 in 2001. Most other indicators like under-5 mortality rate, malnutrition and access to sanitation showed some improvement between 1995 and 2000 while the rate of immunisation and access to safe drinking water showed very marginal declines. While gender disparity has not been marked in health indicators, they have clearly shown a spatial disparity, a significant one across the rural urban divide and to a certain extent across districts as well. Rural urban disparity seems to have come down over the second half of the nineties, and all health indicators show a decline in the coefficient of variation between 1995 and 2000. But in the case of some variables, this decline is not necessarily an improvement. For example, the rates of immunisation have moved closer across divisions because the rate has actually declined in the divisions like Barisal, Khulna and Rajshahi, which have higher rates compared to the other divisions.

India

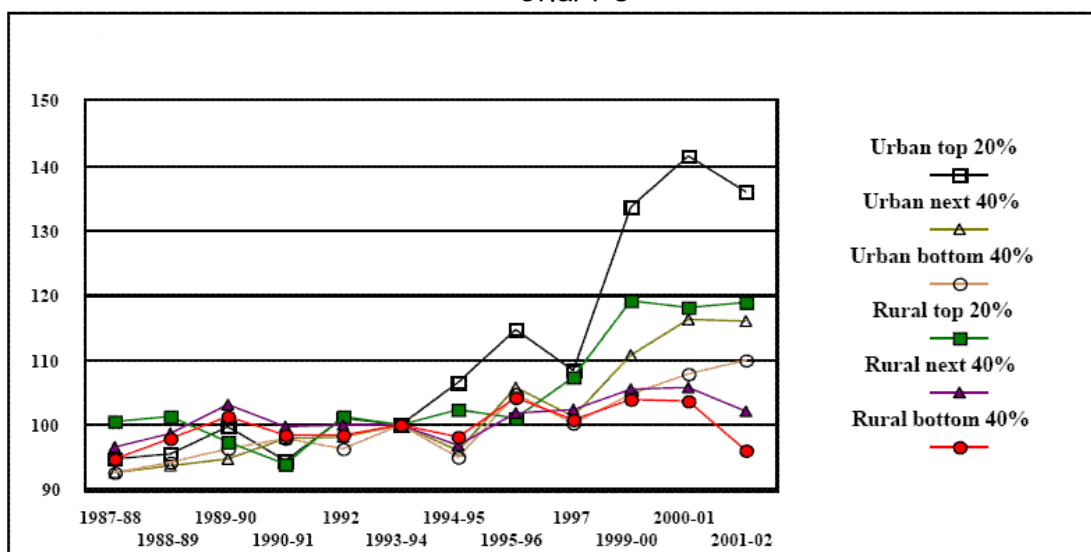
Prior to the extensive introduction in 1991 of the new economic policy, as it came to be known, there was widespread apprehension that liberalisation and excessive reliance on market forces would lead to increases in regional, rural-urban and vertical inequalities in India. Nearly fifteen years later, the issue is still debated, and there are substantial disagreements among economists about whether income and consumption inequality have increased in India during the reform period.

Most studies have used various rounds of National Sample Survey (NSS) consumption expenditure survey statistics for calculating per capita incomes and Gini coefficients. As regards inequality, it is well known that the NSS surveys with a relatively low lower bound for its highest expenditure range, does not capture upper income group consumption adequately. There is a further known problem about lack of comparability of NSS statistics between the quinquennial large-sample consumption survey for 1999-2000

(55th Round) and the earlier ones.¹ As a consequence, poverty and inequality measures have also been affected.

Nevertheless, striking evidence about increased inequality in India in the post-reform period comes from Sen and Himanshu (2005). Based on indices of real mean per capita expenditure (MPCE) by fractile groups, adjusted for the changes in methodology, they show that whereas the consumption level of the upper tail of the population, including the top 20 percent of the rural population, has gone up remarkably during the 1990s, the bottom 80 percent of the rural population have suffered during this period (Chart 5). This graph also clearly shows that the income/consumption disparity among the rich and poor and among urban and rural India has increased during the 1990s.²

Chart 5:



Source: Sen and Himanshu (2004)

¹ The reference periods in the Consumer Expenditure Survey of the 55th Round of NSS survey were changed from the uniform 30 day recall used till then to both 7 and 30 day questions for items of food and intoxicants and only 365 day questions for items of clothing, footwear, education, institutional medical expense and durable goods.

² These findings are based on NSS 'thin sample' surveys, conducted annually since 1986. These surveys are not as comprehensive as the NSS comprehensive rounds or the 'thick sample' surveys but provide sufficiently good estimates at the national level. Also, these thin samples results are comparable across successive surveys as they use a common form of questionnaire.

Estimates of the extent of poverty are similarly affected by attempts to make the various NSS surveys compatible. Table 1 indicates the differences in estimates that can result from using even slightly different methodologies to interpret the same survey data. However, it does also suggest that while the incidence of head-count poverty had been declining from the mid -1970s to 1990, subsequently that decline has been slowed or halted. This suggests that rising inequality is clearly one major reason why India has not made more progress in reducing poverty.

Table 1: Trends in poverty in India
(per cent of population below poverty line)

	Urban			Rural		
	Planning Commission estimate	Method 1	Method 2	Planning Commission estimate	Method 1	Method 2
1977-78	45.2	45.2		53.1	53.1	
1983	40.8	40.8		45.7	45.6	
1987-88	38.2	38.2		39.1	39.1	
1993-94	32.4	32.6	27.9	37.3	37	31.6
1999-2000	23.6		24.8	27.1		28.4

Source: Economic Survey, GOI and Abhijit Sen and Himanshu (2005)

Note: Method 1 refers to the earlier pattern of questioning with 30-day and 365 - day reference periods, while Method 2 refers to the new pattern with 7-day questions also added, as well as different reference periods for particular commodities.

There has also been a sharp increase in regional inequality in India during the 1990s. In 2002-2003, the per capita net State Domestic Product (NSDP) of the richest state Punjab was about 4.7 times that of Bihar, the poorest state. This ratio had increased from 4.2 in 1993-1994.

The most significant link between growth and poverty reduction is employment generation, which is why patterns of employment growth are not

only important in themselves in affecting economic security, but are usually critical in determining both changes in income distribution and the incidence of poverty. During the 1990s, the employment growth rate in India plummeted. Table 2 shows very significant deceleration of employment generation in both rural and urban areas, with the annual growth rate of rural employment falling to only 0.67 per cent over the period 1993-1994 to 1999-2000. (These are still the latest years for which large sample survey data are available.) This was not only less than one-third the rate of the previous period 1987-1988 to 1993-1994, it was also around one-third the growth rate of the rural labour force in the same period, and the lowest growth rate of rural employment in post-Independence history. Urban employment generation also slowed down quite dramatically.

Table 2: Growth rates of employment in India

	Rural	Urban
1983 to 1987-88	1.36	2.77
1987-88 to 1993-94	2.03	3.39
1993-94 to 1999-2000	0.67	1.34

Source: Government of India, Economic Survey

The decline in rural employment can be directly attributed to the stagnation of agricultural employment during the 1990s. NSSO data indicate that total employment in the agriculture sector increased from 190.72 million in 1993-1994 to 190.94 million in 1999-2000, registering an annual growth rate of only 0.02 per cent during this period. In the reform period, the employment elasticity of agriculture was the lowest, and among the lowest observed in Indian agriculture since 1961.

In fact, one of the major reasons behind the poor employment generation during the second half of the 1990s can be attributable to the sharp decline in the employment elasticity of output growth during this period. Among the sectors, employment elasticities fell in agriculture, mining and quarrying, manufacturing, electricity, gas and water, transport, storage and communication, finance and insurance and services sectors. In general, the employment elasticity of output growth was highest in the tertiary sector, followed by the secondary sector.

According to NSS estimates, the percentage of the rural population in agricultural labour households increased from 27.6 per cent to 31.1 per cent between 1993-1994 and 1999-2000, implying an average of 3.7 per cent annual growth of this population. Against this, it reports less than 1.5 per cent average annual growth of wage paid days of employment in agriculture. As a result, agricultural unemployment is on the rise, and the increase in real wages has not resulted in an increase in the per capita income for rural agricultural workers.

Another observable employment trend is a steady increase in the casualisation of the labour force in India. The proportion of casual workers has increased steadily in rural India. This has been matched by a steady decrease in the self-employment of workers, both male and female, in rural India. Regular employment for rural workers is also abysmally low in India, accounting for less than 7 per cent of all workers. However, for urban areas, the share of casual employment for female workers has come down over the years and regular employment has gone up. But for male workers, the shares of casual workers and self-employed workers have steadily increased, and there is a marginal decline in the share of regular employment.

The decline in self-employment in agriculture, which was especially sharp for women, may be related to changes in production conditions which have forced some peasants out of direct cultivation. There is strong evidence of the declining viability of cultivation in India over the 1990s. A study of farm business incomes (Sen and Bhatia 2004) found that average farm business income at current prices deflated by the CPIAL (Consumer Price Index for Agricultural Labourers) grew at only 1.02 per cent per annum over the 1990s, compared to 3.21 per cent in the 1980s. Rising input costs and fluctuating output prices were found to be the dominant cause of this trend. These numbers are averages for farmers of all size holdings; clearly, the situation has been much worse for small and marginal farmers with inferior access to both input and product markets. This, in turn, has led to a loss of assets, including land, by the small peasantry. It is now clear that this period witnessed a significant degree of concentration of operated holdings, reflecting changes in both ownership and tenancy patterns. Many small and very marginal peasants have lost their land over this period, and therefore have been forced to search for work as landless labourers; meanwhile, micro-level surveys have reported increased leasing-in by large farmers

from small landowners. According to NSS data, there has been a very large increase in landless households as a percentage of total rural households, from around 35 per cent in 1987-88 to as much as 41 per cent in 1999-2000. This would definitely have affected the degree of labour intensity on farms. It also reflects a major source of increased economic insecurity, as peasants were effectively depossessed of their land and forced to find wage incomes in and out of agriculture.

In India, only about 8 to 10 per cent of the population is involved in the organised sector. But employment generation in this sector has suffered during the 1990s, mainly because of a decline in employment generated by the public sector. The deceleration in organised sector employment is one of the more disconcerting features of the 1990s, especially since industrial output has increased manifold and the service sector, in which much organised employment is based, has been the most dynamic element in national income growth. So, along with the deceleration of employment generation in the rural areas, urban employment generation has also suffered during the 1990s. However, there has been some increase in employment opportunities in certain service sub-sectors such as information technology, communications and entertainment related services. But the numbers involved remain very small (currently around 170,000-200,000) relative to the size of the labour force and these jobs remain concentrated in the larger cities. So this has really created some islands of prosperity in an otherwise desperate employment scenario.

There is also a strong gender dimension in the growth rate of organised sector employment. For male workers, employment in the organised sector has steadily declined since 1997. Both in private and public sector companies, employment of male workers has come down. Female workers, on the other hand, have done better, and there has been an increase in aggregate organised sector employment for them.

Internal migration has played a crucial role in allowing rural people to cope with the consequences of agrarian distress and the ravaged rural economy in many parts of India. Large construction activities in many Indian cities, as well as other major public works, depend upon labour drawn from villages as far apart as Andhra Pradesh and eastern Bihar. Migrants from across the eastern borders of India fill many service sector occupations, and

even formal industries rely on migrant workers to fill in the "casual labour" slots in their workforce. Large farmers in places as distant as Haryana and Maharashtra rely on seasonally migrant labour for cultivation.

Much of this is not new. But there are new features: the increasing incidence of women travelling - on their own or in groups - to find work; the greater willingness of many to travel long distances for short-term work or even without the promise of any work; the sheer extent of mass migrations from certain areas; the growing likelihood of finding evidence of some migration in almost every part of India. Not all of this migration in recent years has been because of push factors. There is no doubt that the availability of work in the Middle East and in other countries, as well as the growing demand for more skilled workers such as software engineers and teachers in the developed world, have played a role in increasing cross-border migration. But a very substantial part, especially of internal migration, is distress-led, driven by the complete collapse of rural employment generation, the economic difficulties of cultivation and also the inadequate employment opportunities in towns. This is why most migrant workers in India today are poor and with few of the resources or social networks that could smoothen what can be a traumatic and painful process. The absence of public policy for migrant protection further exacerbates the problems faced by migrant workers and their families, at the points of origin and destination.

There is also evidence of growing insecurity in terms of health indicators and access to quality health services. Private expenditure on health is already very large in comparison to other countries, and it has increased because of public under-performance with respect to the provision of health care and prevention of disease. The Government of India's performance in health has been extremely disappointing especially in the recent period. Though there have been improvements in some health related indicators like birth and death rates, India's performance has been worse than that of Sub-Saharan Africa in a number of health-related development indicators such as the proportions of undernourished children, low birth weight babies and pregnant women with anaemia. The proportion of females to males in the population is also lower in India than in Sub-Saharan Africa. Also, the improvements have not been uniform throughout the country. On certain other indicators like infant mortality and life expectancy, India's

performance is relatively much better, but these figures hide considerable inter-state variations as well as persistent vulnerabilities of some segments of the population. For example, life expectancy at birth is about 55 in Madhya Pradesh, but in Kerala, it is more than 73 (1993-97 data).

One of the most disturbing developments in the 1990s was the decline in the female-male ratios in the relatively prosperous states of India. The female-male ratio among children declined from 945 girls per 1,000 boys (in the 0-6 years age group) in 1991 to 927 girls per 1,000 boys in 2001. This decline was mainly driven by a combination of social discrimination against girl children and the spread of prenatal sex-determination technology and sex-selective abortion. As the largest declines in the female-male ratios have occurred in the more prosperous states of Gujarat, Haryana, Himachal Pradesh, Punjab and Delhi, it appears that economic growth and technological change may have facilitated the spread of sex-selective abortion by making it more accessible and affordable. Though prenatal sex determination has subsequently been banned by the government, given the social stigma, corruption and availability of technology, it is difficult to say how effective the ban will be.

Nutrition conditions are acknowledged to have a close relationship with overall health, and here, the conditions may even have worsened in recent years. There have been disturbing changes in consumption patterns, as revealed by the NSSO and other sources. Thus, per capita food-grain consumption declined from 476 grams per day in 1990 to only 418 grams per day in 2001, and even aggregate calorific consumption per capita declined from just over 2200 calories per day in 1987-1988 to around 2150 in 1999-2000. This decline was marked, even among the bottom 40 per cent of the population, where it was unlikely to reflect Engels curve type shifts in consumer choice, but rather relative prices and the inability to consume enough food due to income constraints.

Pakistan

The Pakistani pattern has been characterised as "growth without development", (Easterly 2003) because despite its respectable per capita growth (of around 5 per cent per annum) over the second half of the 20th century, the country systematically underperformed on most social and

political indicators, such as education, health, sanitation, fertility, gender equality, corruption, political instability and violence, and democracy. Significantly, output growth has also been associated with very low employment growth, at the trend rate of only 2 per cent per annum for the long period 1960-99. The pattern of jobless growth has worsened over time. There was a total break between growth and employment patterns in the period after the mid-1980s, and particularly in the period after the imposition of an IMF Structural Adjustment Programme in 1987-88. In the 1990s, the growth process became much more volatile even as the trend rate of growth was lower. This deceleration in growth was associated with historically low rates of investment, as private investment failed to pick up and counterbalance the decline in public spending.

A structural adjustment process has been underway (with some breaks) since 1988 with the explicit objectives of achieving a stable macroeconomic environment with high GDP growth, low inflation, low fiscal and current account deficits, and adequate foreign exchange reserves. However, this was based on controlling public expenditure, and also involved privatisation of public assets, ceilings on wages and employment in the public sector, cuts in subsidies, cuts in development expenditure, including on "social sectors", increases in user charges for public utilities and services and frequent devaluation. (This last feature also had the unintended consequence of reducing the inflow of remittances from foreign workers, which has been an important source of sustenance of Pakistan's balance of payments.) The investment-GDP ratio declined from 17.3 per cent in 1998-89 to 14.7 per cent in 2000-01, largely due to the collapse in public investment from 8.5 per cent of GDP to 5.6 per cent. In consequence, industrial growth rates almost halved from 8.2 per cent to 4.8 per cent per annum. Further, the earlier success at reducing poverty was reversed in the 1990s, as the per cent of households living in absolute poverty increased from 21.4 per cent in 1990-91 to 40.1 per cent in 2000-01.

Some other important macro policy measures, with a direct bearing on the incidence of poverty, over the recent period deserve to be noted. The multi-billion dollar Social Action Programme (SAP) was initiated during the Eighth Five-Year Plan, to invest in the long-neglected areas of health, education, drinking water and sanitation, with particular emphasis on rectifying gender, urban-rural and income class disparities. However, while

SAP aimed at increasing government spending on the social sectors, this objective failed over time. SAP spending increased from 1.7 per cent of GDP in 1992-93 to 2.35 per cent in 1996-97, but then declined to 1.6 per cent by the end of the decade, and has remained low thereafter. Total government spending on health and education as per cent of GDP has actually declined slightly in the decade after the initiation of SAP.

The Poverty Reduction Strategy Paper (PRSP) renewed a commitment to macro-economic policies that promote growth especially in labour-intensive activities, and to poverty reduction through micro-credit and skills improvement, in conjunction with grassroots organisations such as local councils, NGOs, CBOs and Village Organisations. However, this is meant to be accomplished with reduced rather than increased state spending, which seems unlikely to deliver the expected results, since the private sector historically has failed to deliver employment-intensive growth and is heavily reliant on public expenditure for stimulus. The Devolution Plan of 2001 seeks the genuine empowerment of citizens, and the devolution of administrative and political authority from provincial to local levels. However, this too is constrained by the absence of effective financial devolution to lower levels and the continuing limits on various other forms of political freedom.

Nepal

The basic context that must be borne in mind in Nepal is that of the extreme lack of development of the economy as a whole, as well as the major infrastructure gaps and problems of physical accessibility that characterise much of the country. These have contributed to the success of the Maoist movement in some regions of the country, which in turn has added to the difficulties of ensuring an adequate or equitable spread of public development expenditure.

There are marked regional differences between the Terai, Hills and Mountains areas, with decreasing extent of infrastructure and increasing incidence of poverty as one moves from the terai to the mountains. Agriculture dominates in the productive structure, and rural people dominate in the absolutely poor population.

The long and relatively open border with India creates a high degree of dependence upon the Indian economy, and also implies direct and indirect effects of macro policies in India upon the Nepalese economy. There have been recent increases in the rate of urbanisation, indicating a likely trend for the future.

Economic poverty is widespread and most estimates put it at just under half of the population. The Nepal Living Standards Survey (1995-96) found 42 per cent of the population to be below the poverty line (44 per cent of urban and only 23 per cent of rural populations). The difference between Kathmandu and the rest of Nepal, including other urban areas, is very marked: the poverty ratio in the urban Kathmandu Valley was estimated to be only 4 per cent. While open unemployment is low, underemployment (or disguised unemployment) is officially estimated to be as high as slightly more than 45 per cent of total persondays.

Much the same as in several other South Asian countries, economic growth in Nepal did not translate into poverty declines or improvements in living standards of the masses. Instead, inequalities are said to have increased substantially, even by World Bank estimates. Most of Nepal's 20 million people are subsistence peasants, who have experienced little or no improvement in their material conditions, and have therefore been fertile soil for the Maoists to spread.

Economic conditions have deteriorated in the recent past. The "modern" sector has been especially badly hit. Trade, manufacturing output and tourism all declined. The carpet industry, which employed 550,000 workers in 1992, was down to half that size in 2002. The garment sector's workforce of around 70,000 in the mid-1990s has also been halved over the past few years. On estimate is that out of 300,000 to 350,000 youth who enter the job market annually, only 10 percent find work.

Some of this was actually the direct result of market-oriented reforms which have involved trade liberalisation, privatisation and reduction or removal of subsidies, including on food. These were not only counterproductive in terms of making it more difficult for the nascent industries to survive, but they also hit directly at agriculture and were insensitive to the requirements of a large subsistence-based pattern of

cultivation. As a result, Nepal is now reduced to being a food-importer, although it was earlier mostly self-sufficient in grain.

The official emphasis has been on local government and participatory planning exercises, based on elected Village Development Committees and a 3-tier system of local government. However, the recent and continuing history of conflict, whereby there are some areas almost completely under the administrative control of the Maoist opposition and others where politically-motivated violence is frequent, has meant that there are limits even on the administrative control of the government authorities in certain areas. Apart from human security issues, this had led to displacement, breakdown of institutional arrangements, impact on infrastructure, effects on work participation and livelihood, and increased migration (both seasonal and long term) as a coping mechanism. All this necessarily implies much greater economic insecurity for the bulk of the people.

Despite an Agriculture Perspective Plan focussed on increasing agricultural growth through technological change, infrastructure and human capital development, there has been little or no improvement in the growth rates of agricultural output and stagnation in agricultural incomes. The manufacturing sector has focussed dominantly on exports which are concentrated in garments, carpets and pashmina, with little development of manufacturing for the home market. Recent difficulties in the export markets for these commodities have been associated with the slowdown of manufacturing output and employment growth as a whole.

Import penetration has been associated with lack of development of infant industries and closure of small units, as well as low employment generation in manufacturing. Financial sector reform has led to the reduced flow of institutional credit to agriculture and small enterprises, and with fewer possibilities of subsidies for providing micro-credit to the poor through government channels.

Sri Lanka

The prolonged civil war has directly and indirectly affected economic growth and development activity in Sri Lanka in the past two decades. During the 1980s Sri Lanka only managed a GDP growth rate of 3.6 percent per

annum. During the period 1990-2001, the average rate of growth increased to about 4.8 percent, but it was associated with a declining employment growth rate. During this period, employment increased by about 2.3 per cent. The slow growth of employment was due to low growth of the agriculture sector, the consequent shedding of labour in this sector and the inability of industry and services to fully compensate for this loss (McKinley 2003).

Sri Lanka's level of human development is well above levels for other developing countries at similar per capita income levels, reflecting continued public expenditure in these areas for several decades. While social sector investments boosted the health and literacy of the population, Sri Lanka remains a low-income, food-deficit country.

There are considerable regional variations in levels of poverty, income, and human development in Sri Lanka. The industrialised Western Province fares best on most human development indicators, whereas the rural, including estate, areas the 'worst'. Although comparable socio-economic data for the war-torn North and East of the country are not available after 1987, these two areas are among the poorest and most deprived in the country.

Both the incidence of poverty and unemployment appear to have increased over the 1990s. The Department of Census and Statistics (DCS) data suggest that absolute poverty increased significantly between 1990-91 and 1995-96, from 33 to 39 percent according to the higher poverty line of Rs. 950 per person per month, and from 20 to 25 percent according to the lower poverty line of Rs. 791 per person per month. However, no reliable statistics are available for the North and East, where the poverty levels are believed to be much higher than elsewhere in the country. The government's Poverty Reduction Strategy Paper document suggests that a very high proportion of the Sri Lankan poor stay just above the poverty line and even a slight upward movement of the poverty line will push this section of the population below the poverty line.

In Sri Lanka the incidence of poverty varies significantly across the provinces, from a high of 55 per cent in Uva Province to a low of 23 per cent in Western Province. Due to political unrest, data availability for the Tamil dominated and civil war hit Northern provinces are sketchy but recent surveys indicate that the level of poverty is at a very high level in these

areas. Additionally, these province have also experienced very high rates of death, internal displacement and also GDP contraction, suggesting that the incidence of poverty would be much higher in these areas. In general, the costs of the war in these provinces have fallen disproportionately on the poor, and particularly on women.

The incidence of poverty does not vary too much across the major ethnic groups (Sinhalese, Sri Lankan Tamils, Indian Tamils, and Muslims or Moors). Among these ethnic groups, Indian Tamils are considered to be among the poorest group in Sri Lanka. Living largely on tea, rubber, and other plantation estates, they suffer the highest degree of social and economic isolation due to a variety of factors, including the remote location of estates, language barriers (many speak only Tamil) and social stigmas attached to plantation labour. Income inequality is low among the estate Tamils, indicating that the majority of households are homogeneously poor.

Sri Lanka presents a case where high levels of government spending on social sectors have helped the country to attain very high level of social indicators compared to other South Asian countries, but this has still failed to lower either poverty or income inequality. In fact the growth of the Sri Lankan economy - at an average of more than 5 per cent per annum over the 1990s - exhibited substantial volatility and there are also doubts about its sustainability.

The economic policies adopted during the last two decades were oriented towards accelerating "growth" through liberalisation, export orientation and privatisation, with the assumption that growth would trickle down and reduce poverty. However, even the World Bank, which was actively associated with promoting these policies, now admits that neither adequate growth nor poverty reduction has been achieved during this period. While the rate of growth of output increased in the 1990s, it is noteworthy that it was associated with *lower* rates of employment expansion than the previous two decades, which were characterised by lower rates of aggregate GDP growth.

There is no doubt that there were fairly major changes in the structure of production, as the economy moved from being dominantly

agriculture-dependent to a much greater reliance on manufacturing exports, especially of garments. However, these massive shifts in production structure were not reflected in employment patterns: while the share of agriculture in total employment declined from 42 per cent to 36 per cent, the share of manufacturing employment remained absolutely stagnant at only 15 per cent, between 1990 and 1999, despite the increase in female employment in the ready made garments sector. As in other South Asian countries, the increase was in services employment, which is likely to have been operating as the refuge sector for workers unable to find jobs elsewhere.

It is true that open unemployment rates have declined, but this is likely to reflect more of the discouraged worker effect than an actual increase in job availability. Further, even the official reports admit that the so-called 'employed' include those who have worked for as little as one hour per week in paid employment, and are significantly underemployed. Meanwhile, employment contracts have become more fragile and less secure.

II. Factors affecting economic insecurity and policy issues

It is apparent that across the South Asian region, there have been significant increases in economic insecurity, despite the aggregate economic growth rates that have been relatively high and stable compared to many other developing countries. The dominant forms that this increased material insecurity have taken include: deterioration of livelihood conditions and slower employment generation; therefore the persistence of poverty and the increase in income and asset inequalities; the changed nature of work, with either more casual work contracts or less reliable self-employment; consequent increase in short-term migration for work, which has emerged as one of the more significant survival strategies of the poor across the region; the decline in food security exemplified by worsening nutritional indicators; and the reduced access especially to public health and sanitation facilities, which has made private health care more necessary and more expensive for ordinary people.

While the specific forces that have created these greater insecurities may vary from country to country (and within countries, from

region to region) there are important commonalities that have affected all these countries, that could be said to be responsible for most of these changes. In what follows, these issues are taken up together for all the countries.

Policies of global economic integration

All the countries considered here have substantially increased their degrees of global economic integration, whether in terms of trade openness, or greater freedom for capital flows, or in the reliance upon invisible earnings in the form of remittances from migrant workers. These have had varying effects, but while they may have contributed to growth in some sectors, they have also been associated with deindustrialisation and reduced rates of employment generation, which as we have seen have important negative effects on material security.

Trade liberalisation in particular has had a major impact because of the effect of import competition on both large and small producers. Trade liberalisation is essentially inequitable in nature as it distributes income in favour of the export sector and against the import competing sector. Unless the gains from trade are redistributed, trade liberalisation will always change income distribution, which may imply higher inequality. Further, where there is unemployment and no automatic tendency towards labour market clearing, there are strong possibilities that import competition can lead to further loss of employment. In South Asia, the expectation was that trade liberalisation would encourage more labour-intensive production and work against the capital-intensive sectors that were earlier protected by import substitution policies. It was also expected, along the lines of traditional trade theory based on comparative advantage according to resource endowment, that less skilled labour would benefit in comparison to more skilled labour.

However, the opposite seems to have occurred. The more employment-intensive sectors producing for home markets have been adversely affected, rather than encouraged, by trade liberalisation, and they have been replaced by what is often more capital intensive production from the North. Opening up trade has helped certain sub-sectors, both in manufacturing and services, where South Asian countries are internationally competitive, but aside from

the production of ready made garments, additional employment generation has been mainly in activities using relatively skilled labour, especially in services. By expanding the markets for these sectors, trade liberalisation has definitely created some pockets of prosperity in South Asia, but on the other hand, it has negatively affected most other manufacturing sectors and agriculture. The situation in agriculture is most disturbing because about 70 per cent of the population of South Asia is dependent upon this sector. Continued subsidisation of agribusiness in developed countries and the resultant distortion of global agricultural trade is one of the important factors behind the poor performance of agriculture, but other macroeconomic policies, such as patterns of public spending and financial policies, have also played a role. Small and medium enterprises in the manufacturing sector have also been hit by trade liberalisation. Typically, employment intensive domestic production has been displaced by imports of similar goods using more capital intensive production methods abroad.

In a liberalised trade regime, it is important that most workers possess some ability to shift jobs between sectors because trade liberalisation is likely to induce relocation of workers. Opening up trade leads to job losses in import competing industries and increases employment opportunities in export sectors. If socio-economic conditions (including inadequate development of education and skill formation) prevent workers from making this transition smoothly, or if the rate of new job creation is not fast enough, then it may result in even higher levels of inequality than those already prevailing in the economy. It is therefore incumbent upon governments to equip and train workers to build up the requisite skills to make such inter-sectoral shifts. However, the increased withdrawal of the states of South Asia from most welfare-related issues and the generally inadequate emphasis on skill development for the working classes as a whole, suggests that the adjustment to trade liberalisation will continue to be a painful process for many workers and small producers. The gap between the beneficiaries of trade liberalisation and those who have not managed to benefit from it will increase in the immediate future unless alternative policies are introduced.

Opening of the capital account of the balance of payments has had similarly adverse, if more indirect, effects upon the economic security of citizens of countries in the region. There are some particular problems of

aid-dependent countries such as Bangladesh, which suffer from chronically overvalued exchange rates because of aid inflows, and which are therefore particularly adversely affected by trade liberalisation. But there are different issues which arise once flows of finance capital become significant, as they now have in India. It has been found that financial inflows typically have positive effects upon stock market indicators, but are not necessarily associated with higher investment rates. Indeed, if there are large inflows, this may have the effect of causing appreciation of the real exchange rate which acts to depress domestic investment by shifting incentives away from tradeable sectors to non-tradeables. But another possibly more adverse effect is on fiscal policy, which tends to become very sensitive to the possibility of capital flight and therefore constrained and deflationary even in periods of economic slump. Across the region, the obsession with attracting and then retaining "investor confidence" has become an important driver of governments' fiscal policies, which prevents economies from reaching their full potential and allows high levels of unemployment and underemployment to persist.

The feature of greater economic integration which has had the most positive effects is short-term labour movement across borders. Most of such movement from South Asia is within Asia, to neighbouring countries as well as to the oil-exporting countries of Saudi Arabia and the Gulf. In the past two decades this has given rise to very large inflows of remittance incomes, which are now the single largest source of foreign exchange for all the countries considered here. In fact, not only are such flows larger than any other exports, they have also been more than all forms of capital inflow out together. They have also been increasing in a relatively stable fashion being unaffected by domestic business cycles, so that they have been a major cushion for the balance of payments and formed an important source of macroeconomic stability in all the countries.

Macroeconomic policies

As already mentioned, fiscal policies in South Asia have been unduly constrained by the perception of the requirements of "investor confidence", and have generally operated in such a way that governments have not built up productive capacity in these economies to ensure sustained future growth. Lack of public investment has dampened aggregate demand, negatively

affected private investments, created infrastructure bottlenecks to future growth, and adversely affected the provision of important public services. Moreover, since it is well known that in developing countries like those of South Asia capital expenditure on infrastructure and social services tends to crowd in private investment, reduced expenditure on these sectors has led to the crowding out of private investment. As a result of reduced public and private investment, there has been inadequate productive employment generation, both in rural and urban areas. This has worked as a key factor behind the increased inequality and slowing down of poverty reduction in the region as a whole.

Part of the macro policy paradigm that has been adopted by the governments of South Asia is that taxes should be rationalised and direct tax rates should be cut so as to improve "efficiency" and provide incentives to private investors. In addition, indirect tax rates have been cut because of import liberalisation and associated domestic duty reductions. This has meant that fiscal balance could not be achieved through increased tax revenues, but would have to depend upon expenditure cuts. This has been the case in most of the countries in the region, with declining public expenditure. In Bangladesh, however, the introduction of higher rate VAT appears to have been associated with higher tax revenues as well, which has therefore enabled slightly more public expenditure.

The combination of reduction in tax-GDP ratios in most of the region and fear of running large public deficits meant that the first casualty was public investment. Thus, in Nepal, public investment fell from an average of 25 per cent of GDP in the late 1970s, to 18 per cent in the late 1980s, to only 11 per cent in the late 1990s. A similar pattern, even if not as sharp, was evident in the other countries. In several countries, this was also associated with low and falling rates on private investment because of the complementary nature of public and private investment.

In India, not only did capital expenditure of the central government fall very substantially from the early 1990s onwards, but there were reduced financial transfers to state governments. Since under the federal system in India, state governments are responsible for a wide range of sectors including infrastructure, rural development, agriculture and food, this naturally affected such public spending as well. Further, the pressure to

cut government spending also led to attempts to reduce subsidy payments, which meant rising prices and user charges for a range of goods and public services, from food and fertiliser to water rates and power charges. In most of South Asia, rural areas were especially hard hit by the decline in spending on both infrastructure creation and maintenance. This had direct effects on employment generation and the viability of cultivation, as has been noted above, but it also meant reduced access to other public services in social infrastructure, and consequent increase in material insecurities.

Privatisation

Privatisation can take two important forms. The first is the direct sale of public assets to private agents who are then charged with providing the good or delivering the service, and usually subject to some regulatory authority. The second is the more complex route of decline, running down or closure of state units that were delivering goods or services, such that private providers necessarily become more important. The first has been more significant for goods-producing public enterprises as well as utilities such as power generation and distribution. The second is more evident in a range of public services including in health and education.

Downsizing of employment and closure of loss-making public sector enterprises have typically been features of the attempts at fiscal consolidation across South Asia. It is often the case that some of these actually provided important services to farmers, small enterprises and people in general, so their closure also had unfortunate productive and distributive implications. Privatisation of basic services like electricity and transport has also raised the prices of these services in many places. This has definitely contributed to the increased inequality observed during the 1990s. The worst hit have been the relatively backward regions where private participation in industry is low.

The decline in public health care provision which has been marked across the region has been an important factor behind the increased material insecurity that was noted earlier. One of the main reasons behind the poor state of health care facilities in India and the high health-related inequalities across the states is the very low levels of public health expenditure, which happens to be among the lowest in the world at 5.1 per

cent of GDP. But even in other countries (such as Bangladesh) public health services have deteriorated and ordinary people are forced to much more expensive private care givers and facilities, or simply to avoid such access altogether. In much of the subcontinent, there is evidence of widespread use of traditional medical treatment, such that in some state of India it has been estimated that around half of the population does not access modern allopathic medicine at all. While this may reflect choice, it also results from the sheer lack of availability of public services and the high costs of private services.

Financial liberalisation

Financial liberalisation in South Asia, as in other parts of the developing world, was typically designed to accomplish the following objectives: make the central bank more independent; relieve financial repression by freeing interest rates, and introduce various new financial instruments and innovations in the financial system; reduce directed and subsidised credit; and allow greater openness and freedom for various forms of external capital flows. Mostly, however, the extent of financial liberalisation has been incomplete and these objectives have not realized in full. This is probably an advantage, since, the lack of completeness of such financial liberalisation has been one important reason for the relative financial stability of the South Asian countries, unlike several other "emerging markets".

The most adverse effect of financial liberalisation on inequality and economic insecurity has come from policies which have reduced the flow of directed credit, especially to small producers including cultivators. As a result, most banks now avoid lending to small farmers and small scale industries as they are perceived to be less creditworthy customers. This has had dramatic effects on the viability of cultivation and of small enterprises, which are the largest employers in the country, and therefore indirectly on income distribution and poverty reduction. This has raised costs of cultivation and reduced the viability of agricultural production, caused small businesses in manufacturing and services to face greater problems and even be forced to close, and also therefore adversely affected employment.

Unfortunately, instead of focussing on the revival and expansion of such institutional credit access for small producers, governments in the region have tended to rely on increasing the potential for micro-credit. While micro-credit provision is certainly important for incorporating those without any collateral into the ambit of some form of institutional credit and as been significant in empowering women, it certainly cannot be treated as a substitute for making available more production loans from banks and other development finance institutions to small producers.

Policies affecting food security

One of the most significant form of material insecurity in South Asia is still food insecurity, which remains a major policy challenge. This is despite the fact the food production has increased in all the countries of South Asia (albeit at a declining rate) so that at a macro level, these countries do not face aggregate shortage. The table below reveals that all countries have even been exporting some amount of food, and the balance is positive in all countries except Bangladesh for 2002. These countries have transformed themselves from food deficit countries in the 1960s and 1970s to food surplus countries in the 1980s and 1990s. However, increased food production has not been accompanied by greater household and individual food security for significant sections of the population.

Country	Food Production	Food Exports	Food Imports	Food Balance
Bangladesh	26,924	1.6	2,827	-4,601
India	1,74,655	9,490	56	23,826
Nepal	5,839	11	39	57
Pakistan	24,936	2,966	288	3,818
Sri Lanka	1,938	9.8	1,307	252

Source: FAO, 2004 Figures in thousand metric tones for 2002

Across the region, there is evidence of inadequate nutrition and food insecurity, reflected most starkly in declining per capita calorie consumption

even among the poorest quartile of the population.³ Nutritional deficiencies remain huge - at least half the children in India (and possible more in Pakistan) are born with protein deficiency, and anaemia and iron deficiency are also widespread and severe problems. World Bank estimates reveal that around 35 per cent of the population is chronically undernourished in Bangladesh followed by 25 per cent in India, 20 per cent in Nepal and Pakistan, and 25 per cent in Sri Lanka. (quoted in Babu and Gulati, eds, 2005) What is worse is that there has been little change in the prevalence of under-nutrition in South Asian countries from the early 1990s through the late 1990s, and if anything level of food insecurity have worsened slightly during the 1990s. This is unlike other parts of the developing world - such as China, Indonesia, Malawi and Kenya, all of which have made more than a 25 per cent reduction in the level of undernourishment during the last decade.

Two policy related forces have played substantial indirect roles in declining food security: the agrarian crisis and inadequate employment generation, both of which have meant that patterns of changes in purchasing power have not encouraged better food security. But there are also direct effects of misguided policies which have directly damaged food security - as in the case of India since the mid 1990s, when attempts to reduce the central government's food subsidy by increasing the price of food in the public distribution system led to declining sales and excess holding of food stocks. These meant more losses, and therefore a larger level of food subsidy, even as more people within the country went hungry, and ultimately several million tones of foodgrain were exported at ridiculously low prices despite widespread hunger and malnutrition within the country.⁴

Loss of livelihood is typically the key shock factor that then generates a process that culminates in greater hunger and malnourishment in South Asia. This explains the apparent conundrum of the coexistence of higher production and lower prices of food with continued, widespread and even increasing incidence of hunger. As world trade prices of food have fallen, incomes of the poor (especially the rural poor) in most parts of South

³ In India, per capita foodgrain consumption declined from 476 grams per day in 1990 to only 418 grams per day in 2001, and even aggregate calorific consumption per capita declined from just over 2200 calories per day in 1987-88 to around 2150 in 1999-2000, according to National Sample Survey data.

⁴ Details of the entire mess are available in Chandrasekhar and Ghosh (2004).

Asia have fallen even further, reflecting the general stagnation of productive employment opportunities and worsening of livelihood conditions.

The irony is that cultivators are suffering from this - and from related increases in food insecurity - just as much or even more than other groups. And this is probably the most significant single conjunctural cause of the continued prevalence of widespread malnourishment. The macroeconomic causes for livelihood insecurity come dominantly from the effects of market deregulation and reduction of state expenditure that have marked the last decade and a half across South Asia. This means that, just as land reforms and more equal property distribution remain the key to solving the structural problem of hunger, the more transient or temporary evidence of hunger must be dealt with through macroeconomic policies that firmly commit government to much greater degrees of involvement, investment and regulation.

Lack of adequate education or required skill generation

One of the more important concerns in South Asia is that government have typically not been good at planning or even assessing labour market requirements of the medium term and planning education provision accordingly. In consequence, there is usually a large mismatch between the education provided to youth and the skills actually required in the labour market. The phenomenon of large pools of educated unemployed persisting even when there is acute shortage of skills in other activities or areas is widespread across the region. There is the further, and increasingly important problem that the migration of skilled and semi-skilled labour is creating some important gaps in domestic labour supply which can have important growth consequences and cause worsening provision of some services, especially in health and education.

The social costs of large projects

Displacement due to large development projects has emerged as an important source of very severe material insecurity for substantial numbers of people. It is somewhat depressing to note that despite much greater public recognition of the huge human costs of displacement and dislocation

and the paltry and inadequate nature of the compensation that is typically provided by the states in the region, governments in South Asia still tend to underplay the negative effects. It is also the case that many of the large projects that have been implemented and still are being planned - especially in irrigation - tend to benefit people who are part of the social mainstream and adversely affect or displace marginalised groups, such tribal populations. This means that tendencies to underestimate the social costs of such displacement are greater both in government and among the society at large. The most pressing problem is that of completely inadequate compensation and lack of public responsibility for people who have to completely rebuild their lives, often from scratch.

Public policy on migration

Given the sheer extent and proliferation of short-term migration as a basic source of income in South Asia today, the lack of public recognition of the many dislocations it can cause for the poor is remarkable. Migrant workers in South Asia typically do not have access to any of the public facilities for health care, or other services such as access to the public distribution system. Nor are their children covered by immunisation programmes or child development programmes, or registered for attending local schools, since they are not recorded as being resident in that area.

There are the other sins of public omission and commission that directly affect such migrants. In most areas, there are no public help centres, no information offices, no complaint cells where they can go to redress any grievances, whether these relate to non-payment of wages or terrible conditions of work or physical exploitation and violence. Rather, local officialdom in the destination typically views migrants as vagrants or nuisances, takes aggressive attitudes towards them and becomes another source of tribulation for the migrants.

The difficulties intensify when the adult women of the household become migrants, as is increasingly common. Not only do such women expose themselves personally to all kinds of hazards, they typically leave behind families with young children and older people who are thereby denied care. The social dislocations caused by such departures are huge, and can have major adverse consequences on the families and on community life. Families

of such migrants and the migrants themselves are well aware of these negative possibilities, but typically say they have no choice. But these outcomes are mostly ignored by policy makers and local officialdom, who take no extra consideration of the special difficulties of such families. Even cross-border migrants, who are responsible for bringing in so much foreign exchange into the region, mostly find that government is a threat and obstacle rather than a source of assistance and security at the points of destination and origin.

Natural disasters and disaster relief

The recent natural disasters that have ravaged the subcontinent - the tsunami, cyclones in the Bay of Bengal and the Kashmir earthquake, for example - have once again highlighted how public systems in the subcontinent are poorly prepared to provide immediate relief to those who have suffered or assist in reconstruction and regeneration of communities in any meaningful way. This means that the uncertainties of the actual disaster are compounded by subsequent processes which tend to dramatically increase economic insecurity. Official systems of providing relief in most countries of South Asia are still very bureaucratic, prone to corruption, subject to long delays which render the relief redundant or useless, and dismissive of local communities with very little people's participation. Clearly, these systems need to be reformed to enable those affected not to be hit by first the disaster itself and the disaster of relief measures.

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