

THREATS TO SOCIAL WELFARE BEFORE THE CRISIS²

East Asia's spectacular progress in social welfare was generally developed against a backdrop of political stability (in some cases achieved through authoritarian methods), full employment, high household savings and strong community ties. This benign environment did not encourage governments to plan for downside risks, such as in the present crisis. As a result, even before the crisis, there were growing concerns about the vulnerability of the poor and near-poor, the absence of formal social safety nets to help households manage risks, the erosion of economic gains made by women, and the distribution of the burden of adjustment in view of often repressive labour policies.

Other cracks in Asia's social model were also apparent before the crisis. These include:

- the problem of persistent poverty in such areas as Indochina and Mongolia, and in parts of China, Indonesia and Thailand, despite dramatic reductions in aggregate poverty at the national level;
- the incipient rise in inequality in a number of Asian economies, especially China and Thailand, and to a lesser extent in South Korea and the Philippines;
- the gap between wage increases and productivity growth, as well as the need to modernize worker-management relations in some economies;
- the absence of formal mechanisms to protect many East Asian households from risks associated with job losses, disabilities and aging.

TABLE 1: POVERTY INDICATORS IN EAST ASIA, 1975-95

ECONOMY	Number of people in poverty (millions)			Headcount index (percent)		
	1975	1985	1995	1975	1985	1995
East Asia ^a	716.8	524.2	345.7	57.6	37.3	21.2
East Asia (excluding China)	147.9	125.9	76.4	51.4	35.6	18.2
Malaysia	2.1	1.7	<0.2	17.4	10.8	<1.0
Thailand	3.4	5.1	<0.5	8.1	10.0	<1.0
Indonesia	87.2	52.8	21.9	64.3	32.2	11.4
China	568.9 ^b	398.3	269.3	59.5 ^b	37.9	22.2

Note: All numbers in this table are based on the international poverty line of US \$1 per person, per day at 1985 prices. Economies are ordered according to real GDP per capita (in 1995 purchasing power parity dollars).

a: Includes those economies in the table plus Philippines, Papua New Guinea, Lao PDR, Vietnam and Mongolia.

b: Data are for 1978 and apply to rural China only.

Source: Ahuja Vinod et al. *Everyone's Miracle? Revisiting Poverty and Inequality in East Asia*. A Directions in Development book. Washington D.C.: World Bank, 1997. Quoted by Tamar Manuelyan Atinc and Michael Walton, *East Asia's Social Model after the Crisis*, (World Bank, 1998, pre-publication version).