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Urban Poverty Alleviation in the Age of Globalization in Pacific Asia

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In 2000, almost one out of every two people lives in an urban area. Although a low overall level of urbanization characterizes Pacific Asia, which includes East and Southeast Asia, the region has the largest urban population in the world. By 2000, Pacific Asia had approximately 804 million urban inhabitants, representing 27.5 percent of the world's urban population. Many of these people live in large cities; of the world's 15 largest cities with more than 10 million inhabitants, 6 are located in Pacific Asia.

Pacific Asia's rapid economic growth in recent decades accompanies its urban dominance. Following the example of Japan's postwar economic transformation, the newly industrializing economies (NIEs) of Hong Kong, China (henceforth referred to as Hong Kong); Singapore; the Republic of Korea; Taiwan, China (henceforth referred to as Taiwan); selected members of the Association of Southeast Asian Nations (ASEAN); and more recently China have successively taken off. Together, these NIEs form the fastest-growing region in the world. The region's rapid economic growth, at sustained annual rates of 5 to 8 percent in gross domestic product (GDP) growth since 1980 has been greatly buttressed by globalization processes. Globalization has been a powerful propelling influence that, until the onset of the financial crisis in 1997, was widely viewed as a source of rapid economic uplift.

The conjuncture of rapid urbanization and accelerating globalization, coupled with impressive economic growth, has enabled many governments in the region to make major inroads into poverty reduction within a relatively short time. Yet these compelling forces have also affected the urban poor in ways that have been more severe and more sudden than ever before. The challenge in the 21st century is how to provide the urban poor with a fair chance of improving their lot and contributing to a new society in a global environment. What new policies and innovative thinking can governments bring to bear to banish poverty from the earth?

Urban Poverty Status

Urban poverty is a multidimensional and complex state of deprivation that varies with countries, cities, and social conditions. The term *absolute poverty* is commonly used to define conditions of deprivation in reference to a poverty line as measured in monetary equivalents of food subsistence. *Relative poverty* is a derivative measurement that attempts to depict a standard of living in relation to a reference group in society, such as the mean, median, or some other quantifier. Less quantifiable is the political dimension of poverty, which relates to the extent of civil participation and openness in society. In the Philippines an additional measurement is used to show a psychological dimension; there, researchers use a self-rated poverty index to allow people to describe their own situation.

Urban poverty can be traced to policy failures and inadequate commitment. Macroeconomic policies that are slanted toward large-scale, capital-intensive, and metropolis-based industrialization do not directly benefit the poor. Public investment in infrastructure tends to favor large urban areas, which

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benefits the nonpoor and encourages rural-urban migration. Public expenditure on human capital accumulation, especially education and health, in its emphasis on the tertiary level, tends to benefit the affluent more than it benefits the poor (Pernia 1994, p. 46).

To allow a trickle-down mechanism to work, a country's economy must grow at 7 to 8 percent per year to ensure that the poorest 40 percent of its population has access to affordable basic necessities, such as food, shelter, water, and electricity (UNDP 1996, p. 77). Slower rates of growth would also improve the economic situation, but the trickle-down to the poor would not be as noticeable or as rapid. Many economies in Pacific Asia have experienced growth rates of this magnitude in the past two decades. As a consequence, the achievements in reducing urban poverty have been quite remarkable. By head count ratios, urban poverty in China was reduced from 19 percent in 1981 to 4 percent in 1990, in Indonesia from 38.8 percent in 1976 to 16.8 percent in 1990, and in Korea from 54.9 percent in 1965 to 4.6 percent in 1984 (Mathur 1996). The incidence of urban poverty has been vastly reduced. Nevertheless, the differences among economies remain huge. In 1992, 10.2 percent of Thailand's urban population was considered below the poverty line, whereas 39.0 percent of the Philippines' urban population was below the poverty line in 1991.

The uneven economic conditions among economies in the region are matched by equally uneven income distributions within these economies. Table 12.1 shows the highly inequitable distribution of income in five economies, revealing that the highest quintile group garners the lion's share of total income. China already displays the same pattern of income distribution as the other countries did in 1995 after less than two decades of switching from a socialist to a market economy. The tendency for the rich to get richer is apparent in the table. For example, the richest 20 percent of households in Thailand earned about 49.3 percent of total income in 1976, with the proportion rising to about 54.9 percent in 1988. By contrast, the poorest 20 percent earned only about 6.1 percent of total income in 1976, falling further to 4.5 percent in 1988 (Pernia 1994). The pattern of increasingly inequitable income distribution is confirmed by a recent study in Southeast Asia (Porio 1997, p. 27). In many cases, the poorest 40 percent of the population in urban areas receives at best 20 percent of total income. The richest 10 percent receives 7 to 15 times the income of the poorest 10 percent (ESCAP 1993, pp. 4–15).

Table 12.1. Income Distribution, China and Southeast Asian Countries, Selected Years

		Percentage of total income or consumption						
Country	*Survey year*	*Lowest 10 percent*	*Lowest 20 percent*	*Second 20 percent*	*Third 20 percent*	*Fourth 20 percent*	*Highest 20 percent*	*Highest 10 percent*
China	1995	2.2	5.5	9.8	14.9	22.3	47.5	30.9
Indonesia	1995	3.6	8.4	12.0	15.5	21.0	43.1	28.3
Malaysia	1989	1.9	4.6	8.3	13.0	20.4	53.7	37.9
Philippines	1994	2.4	5.9	9.6	13.9	21.1	49.6	33.5
Thailand	1992	2.5	5.6	8.7	13.0	20.0	52.7	37.1

Source: World Bank (1998, table 5).

The increasingly global economies that Pacific Asian economies have embraced have polarized their societies, economically and socially. The prevailing economic development model of unfettered economic growth, unregulated markets, privatization of public assets and functions, and global economic integration was questioned in the Kuantan Declaration organized by the United Nations Development Programme's Asia-Pacific 2000 Program in 1995. Doubts were voiced in response to the fact that the urban poor in the region had suffered considerable hardships in the wake of structural adjustment programs in the 1980s. Higher prices of goods and services, reduced subsidies, privatization of public services, and currency devaluation hit the urban poor hard (UNDP 1996, pp. 80–92). Some scholars have defined Pacific Asia as an emerging Japan-dominated system of production and investment, with economic growth engendering widespread poverty and degradation of workers (especially women), ecological crises, and social conflicts (Hart-Landsberg and Burkett 1998). Similarly, the increasingly global environment and uneven development, which exclude dissident social forces from the arena of state policymaking, are generating social and political tensions. These are byproducts of a failed policy of high growth and the emerging crisis of global capitalism (Schmidt 1998). What should be underscored here is that despite the rapid economic growth in the region and the successful reduction of urban poverty, recent empirical studies have pointed to an undercurrent of social discontent emanating from policies that accent high growth without sufficient regard for the plight of the urban poor. Whether such policy emphasis is a failure or not is subject to debate.

During Asia's financial crisis, the interdependent nature of the global economy adversely affected the countries in the region. Technological upgrading of Asian manufacturing resulted in the region's reliance on imported raw materials. Devalued currencies have priced many imports out of reach, with Indonesia's imports having dropped nearly 30 percent and Korea's by 36 percent. Consequently, their exports plunged sharply in early 1998 despite substantial currency devaluations (Ignatius 1998). In the three hardest hit Asian countries, unemployment reached record levels. By the end of 1998 unemployment reached 15 percent in Indonesia, 9 percent in Thailand, and 8 percent in Korea, compared with the respective unemployment rates in 1996 of 4 percent, 1.5 percent, and 2.5 percent (ILO 1998; Vatikiotis 1998). At the same time, general price increases registered 6.0, 9.7, and 8.0 percent, respectively, in 1998, leading to political and social stress in these countries and inflicting severe pain on the urban poor (IMF 1998). Notwithstanding the extremely weak social assistance programs, only 1 percent of the jobless urban workers in Indonesia chose to return to the countryside (Liebhold 1998). However, another study reported that Indonesia's outlying islands have an army of 20 million workers who lost their jobs during the financial crisis and have migrated from Javan cities back to their home villages, where they often work on family farms (Moreau and Ford 1999).

Poverty Alleviation Initiatives

In the period after World War II, the countries in Pacific Asia dramatically and successfully reduced urban poverty, despite the increasing concentration of population in cities and unabated rural-urban migration. Broadly based economic growth has resulted in notable gains in urban poverty reduction in Indonesia, Malaysia, and Korea. The Malaysian experience is especially important because the government mainstreamed poverty reduction as one of its primary development objectives following the violent race riots in 1969. The new economic policy that was adopted in 1970 aimed at eradicating poverty, irrespective of area, ethnic identity, and religion. Poverty eradication henceforth formed a key component of sectoral and national development strategies.

The new economic policy was formulated as a 20 year policy aimed at eradicating poverty and restructuring Malaysian society, thereby achieving national unity. The policy was designed to guarantee special privileges, such as greater access to healthcare, education, and economic investment facilities, for those Malays, or *bumiputras,* who constituted the core of the poor population. The target was to enable these Malays to own and manage at least 30 percent of total commercial and industrial activities at all scales of operation by 1990. By this date, the proportion of households living below the poverty line reached 15 percent, a dramatic and huge drop from 50 percent in 1970, if one accepts the government's interim definition of income (Eyre 1997). During the same period, the Gini coefficient of the country fell from 0.513 to 0.445. However, critics have viewed the policy as a positive discrimination policy in favor of the Malays that has intensified identification along ethnic lines. Wealth has tended to concentrate in the hands of a small group of Malay elite across different sectors, and *bumiputra* equity ownership of the corporate sector reached a mere 20.3 percent at the end of 1990, far short of the 30 percent target (Khan

1996). Not surprisingly, therefore, Malaysia remains one of the countries in Pacific Asia with the most unequal income distribution (You 1998).

Most recognize economic growth as a principal antipoverty strategy. The most effective way of helping the poor is to provide them with economic opportunities to help themselves by earning income and increasing their assets. Economic growth that favors the poor expands the employment, productivity, and wages of poor people. Malaysia, whose gross national product per capita growth held steady at close to 4 percent per year between 1967 and 1989, is proud that the income of its poor people grew at a rate greater than 5 percent per year in the same period as a result of growth strategies that were favorable to the poor (UNDP 1997). It was a case of effective policy intervention. In contrast, Hong Kong, one of the fastest-growing economies, has had a deteriorating social environment. United Nations data reveal that Hong Kong ranked a dismal 79th place in the world in 1998 with a Gini coefficient of 0.518, behind Indonesia, the Philippines, and other Asian economies (*Ming Pao*, October 17, 1998). Large numbers of workers employed in the informal sector often complement formal sector employment in Pacific Asia. In Southeast Asia, surveys have shown that informal sector employment accounted for 49 percent of urban employment in Indonesia, 83 percent in the Philippines, and 40 percent in Thailand (Malik 1996).

Beyond rapid economic growth, Pacific Asia is rich in its experience of urban poverty alleviation through the provision of basic services, welfare programs, community banking, and institutional arrangements. A study that surveyed the state of basic service provision in Asian cities and poor people's access to them indicated that within this region, policymakers have developed some innovative and effective ways of delivering urban services to the urban poor (Yeung 1998). This can be seen in housing, land assembly, transport, water, sanitation, solid waste disposal, electricity, and public lighting. The diverse solutions to the problem of housing provision are particularly noteworthy in their varied resource mobilization, policy formulation, and social reach. Hong Kong and Singapore have been singularly successful in meeting the housing needs of their populace through massive deployment of domestic resources over several decades. However, Indonesia's Kampung Improvement Program began in 1969 as an indigenous initiative and later flowered into a huge multilateral program with substantial support from international assistance agencies such as the World Bank and the Asian Development Bank. Similarly, Thailand's Urban Community Development Organization, established in 1992, has been effective in providing credit for housing improvement and enterprise development in urban slums, particularly in Bangkok. In the Philippines, the Urban Basic Service Program under the Presidential Commission for the Urban Poor, in Manila and 14 other cities, started with primary healthcare, nutrition, and nonformal education for children, but has expanded to address the overall situation of the urban poor (Shubert 1996).

Despite the sustained rapid economic progress in the region, the safety net programs that governments have targeted to the urban poor are disproportionately skimpy. Table 12.2 shows that cash transfers in the form of social assistance and family assistance are unevenly distributed, and in-kind transfers through food subsidy are spotty. The comparative weakness of these economies' social safety nets is partly a function of the fiscal and institutional constraints these economies face and partly a reflection of social priorities where, traditionally, the family has been the primary source of support. Subsidized healthcare is the most popular form of welfare, whereas unemployment insurance is the least popular. Hong Kong, for instance, ranks 12th in GDP per capita in the world, yet its government spends less than 9 percent on social services, much less than the other NIEs in Asia. Changes to this pattern appear to be taking place, as government expenditure on the Comprehensive Social Security Assistance soared fivefold to HK$13 billion in 1998 (Lam and Yim 1998). The inadequacy of the social safety net in protecting the needy became only too obvious during the financial crisis. In Indonesia, pensions are provided primarily to civil servants and military personnel, and in Thailand pension funds cover merely 10 percent of the labor force. Even in Korea, formal unemployment insurance is limited to firms with more than five workers. The International Monetary Fund has reported that those economies worst affected by the Asian financial crisis could consider different options to improve their situation (IMF 1998).

Table 12.2. *Public Assistance Programs, Pacific Asia*

Economy	*Unemployment insurance*	*Dole for poor*	*Regular food subsidy*	*Subsidized housing*	*Subsidized clinic*	*State-organized pension fund*
Hong Kong	×	✓	×	✓	✓	✓[a]
Indonesia	×	×	✓	×	✓	—
Korea, Rep. of	✓	✓	✓	×	✓	—
Malaysia	×	—	✓	×	✓	✓
Philippines	×	×	×	×	✓	✓
Singapore	×	✓	×	✓	✓	✓
Taiwan (China)	✓	✓	×	×	✓	✓
Thailand	×	×	×	×	✓	✓[a]

✓ yes.
× no.
— partial.
a. Still being established.
Source: Pao (1998).

The people in Pacific Asia are noted for their high savings rate, which typically exceeds 30 percent of GDP. Consequently, many varieties of community credit schemes thrive. However, in community banking for the urban poor, two are worthy of mention. In the Philippines, the Community Mortgage Program (CMP) is a national poverty alleviation effort created in 1988 that is now operating in 33 cities across the country (see box 12.1). It registers and organizes urban poor communities to enable them to obtain credit to purchase the land they live on through a community mortgage (Shubert 1996). In 1992, the government of Thailand set up the Urban Community Development Office under the National Housing Authority to facilitate urban poor people's access to credit. The functions of lending loans for emergencies, paying debts, and income generation and of savings and loans for housing are carried out by a collective process through urban poor groups that are governed by simple rules and regulations. More than 200 community savings and credit groups have emerged, with at least 173 in Bangkok and 23 in other cities. The combined savings of the groups totaled approximately US$13 million (Boonyabancha 1995).

Box 12.1. *The Community Mortgage Program in the Philippines*

A government body within the National Home Mortgage Finance Corporation administers the CMP in Manila, which was established in 1988. It is mandated with providing finance to enable squatters and slum dwellers to acquire tenure rights and gain access to land. The CMP is operated by a group of applicants for housing finance that have an aggregate, or group, right to a mortgage to secure land and housing. Applicants themselves, not the government, initiate and implement the projects of the CMP. The role of the government is simply to finance, guide, and regulate.

To initiate a project, the group of applicants has to form a community association that must be registered with the Presidential Commission on the Urban Poor. The community association is also required to enter into an agreement with a CBO such as cooperative or charitable association (for example, Rotary or Lions clubs). In practice, CBOs acts as guardians, working with the community at each stage of program implementation and negotiating with landowners for the purchase of land, with government financial agencies guaranteeing payment. Most important, they are responsible for the legal origins of the mortgage. The National Home Mortgage Finance Corporation provides the mortgage by purchasing the land from the landowner and mortgaging it to the community association. Subsequently, it collects monthly repayments on heavily subsidized terms. Long-term mortgage loans are offered at an interest rate of 6 percent a year, repayable in equal monthly

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payments over 25 years. Provision of loans to the community is based on the principle of incrementalism. First, funds are provided for the purchase of the community land, then for the upgrading of the water supply, drainage, sanitation, and other infrastructure services, and finally, individual loans are made available for house improvement or reconstruction.

By early 1994, some 37,000 families had benefited from the program. About half of all communities assisted have been in the Manila area; 70 percent of all CMP projects are located in Metro Manila and two adjacent regions. Though the program was hailed for successfully providing the poor with access to credit on a large scale, it has helped less than 2 percent of the 2.5 million living in substandard urban housing in the Philippines. The major problems behind this small scale of achievement are (a) low participation rate of applicants in the program, (b) administrative delays in handling applications, and (c) internal conflicts among members of the community associations. The sustainability of the program depends on the state of loan recoveries. Forty-five percent of loan repayments are estimated to be overdue; only 20 percent of communities are recorded as being up-to-date with their payments. To reduce the deficits, the government injected additional funding from the national budget into the CMP so that 156,000 houses could be provided to the urban poor in 1999.

The main benefit of the CMP in the Philippines is the acceptance of informal settlements as a way to improve housing and tenure security of squatters, even though these settlements do not meet normal minimum standards for buildings and subdivisions. The critical factors for the program's success are participation of the beneficiaries and coordination between CBOs and government bodies.

Source: Alonzo (1994); Lee (1995).

Although Asia is traditionally known for cooperative and community-based types of rural development, a comparative study in the early 1980s focused on cooperative urban development in five economies in Pacific Asia. This study, covering Hong Kong, Indonesia, Korea, Malaysia, and the Philippines, revealed that despite highly varied economic and cultural settings, the theme of returning control of the delivery of basic services to the community level underlay all the country studies. Whether it involved the mutual aid committees in Hong Kong, Saemaul Undong urban communities in Korea (see box 12.2), or *kampungs* in Jakarta, the need for mechanisms that were controlled by and focused on the urban poor was evident (Yeung 1985). In the global environment of the 1990s, the call was to empower the urban poor, often in partnership with emerging institutions.

Box 12.2. *Urban Saemaul Undong in Korea*

In 1973, the Saemaul Undong (New Community Movement), a successful self-help movement that started in 1971 and gained widespread success in rural areas in Korea, was extended to urban areas. The movement consists of cooperative self-help activities initiated by community residents and promoted through cooperation among residents, resident leaders, and local governments. Such cooperative activities are designed to mobilize and organize residents' investments and available resources effectively. They involve efforts to make needed goods fully available to the community.

The highly organized and integrated community development scheme receives strong government support. When coupled with self-help activities sponsored by neighborhood institutions, the movement has resulted in improvement in a wide range of basic urban services, particularly in low-income communities. These self-help activities include housing improvement, water supply, drainage, garbage and manure collection, fire protection, and health services. Self-help efforts made through Saemaul Undong to improve housing are especially notable in squatter settlements, the on-site housing improvement represented by Itaewon in Seoul, and cooperative housing. Involved communities also organize income-generation projects aimed at the urban poor that may be divided into three types: income-supplement work, community credit unions, and cooperative retail business operations. In addition, these self-help efforts focus on immunization, vaccination, and birth control services.

Critical to the success of urban Saemaul Undong is residents' participation rallied by effective local leadership. In Korean cities, the upper tier resident organization is the *dong*, with a population of 15,000 to 25,000. *Dong* leaders are appointed. However, this is considered too large an administrative unit, whereas the next level, *tong* or *ban*, is too small. As a result, *saemaul* leaders are the driving forces in promoting community projects.

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In Korean cities, issues in cooperative self-help activities relate to the roles of residents, leaders, and the government, which could all be strengthened, clarified, and coordinated. Experience suggests that Saemaul Undong tends to favor projects that are associated with improving the living environment. The cultural aspects of cooperative activities should also be emphasized. A reorganization of the basic operating unit sustaining the movement, involving *dong* and *tong* adjustments, has been proposed. To succeed in the long run, effective local leaders must be identified, nurtured, and trained.

Source: Yeung and McGee (1986).

Under forces of globalization with improved information flows and heightened awareness of participation and transparency, good urban governance is being pursued to enable states and groups in civic society to cooperate and create structures and mechanisms that can discharge redistributive functions. In a recent study in Southeast Asia, researchers found that urban governance is becoming increasingly democratized. In the Philippines, the number of voluntary nongovernment organizations (NGOs) and community-based organizations (CBOs) has grown rapidly, and these organizations have become prominent in public policy issues in urban areas. By 1994, about 50,000 NGOs and 10,000 CBOs were registered in the Philippines. Some have specialized in assisting urban poor organizations. Similarly, in Thailand government officials traditionally did not consult NGOs or CBOs. They have since changed their approach by becoming more open and participatory in listening to more organized urban poor communities through NGOs. Such change has led to distinct progress in formulating and implementing urban development plans and projects. Even in Indonesia, periodic student mobilization and emerging business groups have pressured the state and the military to respond to the needs of the urban poor (Porio 1997). In Hong Kong, Korea, and Taiwan, policymakers are experimenting with more participatory governance models. Clearly, closer coalitions and partnerships among government organizations, NGOs, and CBOs are the way of the future in urban poverty alleviation in the region. In this connection, the Partners in Development Program under the Urban Poor Affairs Office in Naga City, the Philippines, is noteworthy (see box 12.3). The government–urban poor organization–NGO partnership is as much about the technical efficacy of the program as it is about the sincerity of the partners involved (Cerdena 1996).

Box 12.3. ***Partners in Development Program in the Philippines***

Naga City, a medium-sized city in the Bicol region of the Philippines, successfully worked with partners to solve the land-related problems of the urban poor, who were estimated to represent approximately one-quarter of the city's population in 1994. The program began with the formation of the Urban Poor Affairs Office under the mayor's office in 1989, a year after Jesse M. Robredo was elected mayor.

The Partners in Development Program, which focuses on the urban poor, involves a three-way partnership between (a) the city government; (b) the urban poor federation, its member-organizations, and their partner NGOs; and (c) private landowners who participate in a variety of cases. Based on the principle of growth with equity, the city views it as a social amelioration program primarily designed to empower the urban poor by responding to two main problems of urban poverty, namely, the absence of secure land tenure and the lack of basic infrastructure services. Thus, the short-term objective of the program is to improve the living conditions of the poor, and in the long term the program aims at empowering the urban poor and integrating them into the mainstream of development.

The major activities of the program fall into four categories: on-site development, off-site development, capacity building, and auxiliary services. In 1994, the operating budget was P 521,000, which came primarily from the mayor's office, in addition to indirect support from other city government departments.

After four years of implementation, the program achieved notable results. In land acquisition and resettlement, the program enabled the dispersal of some 20 hectares of private and government-owned land to 1,400 landless families. Six additional hectares were secured for subdivision and distribution to another 500

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families. In urban upgrading, the program facilitated the development of 27 blighted communities in Naga, which received basic infrastructure facilities. The effectiveness of the program is also reflected in the increase in the number of upgraded urban poor communities from 9 in 1989 to 70 in 1994. However, the program's most important achievement is the provision of a mechanism through which the urban poor can tackle long-standing tenure problems and other land problems.

The success of the program is due to many reasons, including the vital role of allies in organizing Naga's urban poor as challengers to and sharers of power. In addition, the Community Organization of the Philippines Enterprise has contributed to the program, and Naga City has provided the physical and financial capacity to support an integrated urban poverty program.

The Partners in Development Program represents a model for cooperation among government organizations, private organizations, and NGOs. It contributes to a more secure future for the urban poor partner-beneficiaries and the overall development of the city. The critical factor for its success is the willingness and seriousness with which all parties are devoted to working together and solving problems and the technical and financial ability of the government.

Source: Cerdena (1996).

Factors Affecting Urban Poverty

Globalization and the reorientation of socialist economies to market economies in Pacific Asia have led to rapid economic growth. This, in turn, has brought marked gains in poverty reduction, especially in China and the NIEs. Further trade liberation under multilateralism has also brightened prospects of growth and increased domestic employment opportunities. However, recent studies have spotlighted the darker side of globalization.

Researchers have pointed out that much of the recent growth in the region has been driven by foreign direct investment (FDI). At the macroeconomic level, the hierarchical industrial relationships between Japan and other Pacific Asian economies are such that the former sells expensive value-added components and technologies in exchange for the latter's low-wage labor. To illustrate, Thailand's trade deficits with Japan and the NIEs overwhelmed its trade surplus with the European countries and the United States in 1992. Thailand depended on its FDI inflows to fund its chronic trade deficit, which was valued at 6.3 percent of its GDP in 1995 (Daniere 1996, p. 374). Ironically, and in a narrow sense, rapid economic growth, therefore, does not help poverty reduction because a sizable portion of GDP is destined for paying national debt and trade deficits rather than for public spending that benefits the poor. Export-led growth tends to preclude sustained improvements in the overall conditions and opportunities that are open to workers, urban poor workers in particular (Hart-Landsberg and Burkett 1998). One scholar even described the late 20th century as the period of the globalization of poverty that, for the developing world, coincided with the onslaught of the debt crisis (Chossudovsky 1998).

Subject to further research for verification, empirical studies so far have provided support for the proposition that FDI has an adverse effect on income distribution and, by inference, on social polarization. Table 12.3 shows the economies in Pacific Asia with the greatest FDI inflows since the early 1970s. The fact that the three economies with the highest FDI reliance—Hong Kong, Malaysia, and Singapore—all have at the same time the highest income inequality in their respective income groups is not a coincidence. These measurements result from a comparison of the inequality ratio (the ratio between the income shares of the richest 20 percent and the poorest 20 percent of the population) of the high-performing Asian economies with the average and medium income of their income groups (You 1998). The tight labor legislation in attracting foreign capital and developing export-oriented sectors has kept real wages lagging behind GDP growth. The exploitation of labor is especially evident in the treatment of women workers. The feminization of poverty in Southeast Asia is not uncommon. In Indonesia, for example, women sewing sneakers for Reebok work more than 60 hours per week while earning only US$80 a month, approximately the price of one pair of shoes (Schmidt 1997). Global economic restructuring and relocation of production to developing countries with cheap labor as part of the globalization process have also induced high levels of national unemployment and significantly reduced the earnings of urban workers and farmers (Chossudovsky 1998).

Table 12.3. FDI Inflows as a Share of Gross Fixed Capital Formation, 1971–93
(percent)

	Annual average				
Country	*1971–75*	*1976–80*	*1981–85*	*1986–90*	*1991–93*
China	—	—	0.9	2.1	10.37
Hong Kong	5.9	4.2	6.9	12.9	5.70
Indonesia	4.6	2.4	0.9	2.1	4.50
Korea, Rep. of	1.9	0.4	0.5	1.2	0.60
Malaysia	15.2	11.9	10.8	11.7	24.57
Singapore	15.0	16.6	17.4	35.0	37.40
Taiwan (China)	1.4	1.2	1.5	3.7	2.60
Thailand	3.0	1.5	3.0	6.5	4.70

— Not available.
Note: FDI inflows comprise equity capital, reinvested earnings, and intracompany loans.
Source: Amsden (1997).

At the microeconomic level, the concentration of FDI in Bangkok has, paradoxically, exacerbated poverty. Urban poverty in Bangkok increased steadily from 25.8 percent in 1980 to 28.6 percent in 1988 (Daniere 1996, p. 381). One explanation for this phenomenon is that globalization and fast-paced technological progress have both created and destroyed jobs. In general, the growth of jobs has been fastest for professionals and technicians, but the number of jobs for production-related workers, including both skilled and semi-skilled workers, has grown slowly or even decreased. This gives rise to increased polarization of the labor market. To attract FDI and promote export-oriented industrialization, government officials and the business elite have collectively promoted free trade, but kept labor costs in check. This is only possible in an unregulated environment that breeds uneven development and social inequality. Lax rules and regulations governing the labor market and human rights allow the erosion of real wages and widespread labor abuse. In 1997, just prior to the financial crisis, misplaced labor policies and structural adjustment problems led to massive job losses, increasing unemployment, and labor protests in some countries in Pacific Asia. Indonesia, the Philippines, and Thailand experienced the largest workers' protests since the early 1970s (Schmidt 1998).

In the face of a deteriorating social climate, the need for infrastructure and human capital investment in cities in the region, especially in the large cities foreign investors prefer, cannot be overemphasized. With regard to infrastructure, world cities in the region have spared no expense in improving their competitiveness by investing heavily in large projects to prepare for the increased trade and growth anticipated in the future. In a process that may be described as world city formation, cities from Seoul to Jakarta have been investing in airports, superhighways, skyscrapers, and shopping malls to better equip themselves as participants in the global economy (Yeung and Lo 1998). Despite some unevenness, table 12.4 shows that countries in the region have generally increased public spending on social services. Note that health expenditures are lower than education expenditures in Japan and Korea, because government accounts do not fund their healthcare programs and are therefore not recorded as part of government expenditure. Overall, public expenditures on social services in the region pale in comparison with the public expenditures of Western countries, because of the emphasis on economic policies, lower revenues from taxes and transfers, and the traditional reliance on the family to provide minimum protection (Kwon 1997).

Table 12.4. Expenditure on Social Services, East and Southeast Asian Countries, Selected Years

Country	Government expenditure (percentage of total expenditure) 1988	1996	Public expenditure (percentage of GDP) 1980	1995
China				
Total social services	—	2.26[a]	—	—
Education	—	1.83[a]	2.5	2.3
Health	—	0.26[a]	—	2.1
Social security and welfare	—	0.14[a]	—	—
Housing and community services	—	0.03[a]	—	—
Indonesia				
Total social services	—	36.14[a]	—	—
Education	9.93	9.77[a]	1.7	—
Health	1.74	3.25[a]	—	0.7
Social security and welfare	—	5.27[a]	—	—
Housing and community services	1.70	17.85[a]	—	—
Malaysia				
Total social services	35.33	38.56	—	—
Education	20.15	22.12	6.0	5.3
Health	4.89	5.99	—	1.4
Social security and welfare	4.17	8.28	—	—
Housing and community services	6.12	2.17	—	—
Philippines				
Total social services	23.37	23.89[b]	—	—
Education	17.09	15.87[b]	1.7	2.2
Health	4.32	3.04[b]	—	1.3
Social security and welfare	1.50	3.06[b]	—	—
Housing and community services	0.46	1.92[b]	—	—
Thailand				
Total social services	30.94	38.40[c]	—	—
Education	19.23	22.0[c]	3.4	4.2
Health	6.26	7.93[c]	—	1.4
Social security and welfare	3.45	3.74[c]	—	—
Housing and community services	2.00	4.73[c]	—	—
Singapore				
Total social services	38.00	39.40[a]	—	—
Education	19.00	22.64[a]	2.8	3.0
Health	5.18	7.30[a]	—	1.3
Social security and welfare	2.01	2.86[a]	—	—
Housing and community services	11.81	6.60[a]		
Korea, Rep. of				
Total social services	29.75	33.63	—	—
Education	19.02	21.10	3.7	3.7
Health	2.21	0.55	—	1.8
Social security and welfare	7.43	10.52	—	—
Housing and community services	1.09	1.46	—	—
Japan				
Total social services	—	58.19[b]	—	—
Education	—	6.03[b]	5.8	3.8
Health	—	1.60[b]	—	5.7
Social security and welfare	27.62	36.80[b]	—	—
Housing and community services	—	13.76[b]	—	—

— Not available.
a. 1994 data.
b. 1993 data.
c. 1995 data.
Source: IMF (1995, 1996); World Bank (1998 tables 6 and 7).

The call for increased democratization under globalization and the growing dissatisfaction of urban poor people has pushed governments toward political reforms and more generous social spending in the region. Investing in education is widely viewed as a vehicle for raising labor productivity and increasing incomes. The push toward research and high technology in Japan and the NIEs reflects official thinking in this direction. The first two policy addresses under the government of the Hong Kong Special Administrative Region have given additional impetus to develop human capital formation to allow the community to maintain its competitive edge. Nevertheless, the social landscape remains highly uneven. In Thailand, for example, compulsory education is restricted to only six years of primary education, with limited government involvement and investment at the secondary and tertiary levels. The absence of a full-scale public commitment to tertiary education will hamper both Thailand's ability to sustain rapid economic growth into the next century and its ability to reduce poverty (Daniere 1996).

Social Polarization in Hong Kong

The global city social polarization hypothesis, postulated by Sassen (1991) and Friedmann and Wolff (1982), has found empirical support, although polarization outcomes differ among different cities (Baum 1997). To extend this discourse, this section provides some preliminary data to show where Hong Kong stands with respect to the hypothesis. In particular, this section attempts to uncover the links among globalization, economic growth, and poverty alleviation in one of the fastest-growing global cities. The scope of the preliminary data this section is based on covers more than a decade prior to the onset of Asia's financial crisis in 1997, which was also the year of Hong Kong's return to China.

In reviewing the literature on social polarization in global cities, three pertinent factors may be noted (Baum 1997). The first relates to the economic changes that accompany globalization. For example, the occupation structure in global cities becomes increasingly polarized as jobs are concentrated in the high-skill/high-status and low-skill/low status sectors (Sassen-Koob 1984). The concentration of jobs at the high and low ends of the labor force leads to a thinning of the middle ranks. Thus, a shift takes place in the income structure of the labor force from a normal distribution of income, characteristically egg-shaped, to a structure with an hourglass shape (Marcuse 1989). Data on income distribution in Hong Kong since the early 1980s have revealed the marked decrease in the middle ranks and the sharp increase of income among higher-income groups (see table 12.5). More specifically, out of households classified by decile distribution, the share of middle-income families has dropped from 36.1 percent in 1981 to 33.6 percent in 1996. Furthermore, because the financial crisis induced firms to shed a large number of middle managers, the gap has not only widened between the rich and the poor, but also between middle- and high-income families.

Table 12.5. Income Distribution, Hong Kong, 1981–96

Household group	*1981 (percent)*	*1986 (percent)*	*1991 (percent)*	*1996 (percent)*	*Monthly household income level in 1996 (HK$)*
Lower-income (decile groups: 1–6)	28.7	28.8	26.8	24.6	Less than 22,000
Middle-income (decile groups: 7–9)	36.1	35.7	35.9	33.6	22,000–56,000
Higher-income (decile group: 10)	35.2	35.5	37.3	41.8	More than 56,000

Source: Hong Kong Economic Times, 12 February 1997.

The social polarization in Hong Kong stemmed from globalization forces that began to influence the former British colony in the mid-1980s. Hong Kong witnessed a rapid and spectacular transformation of its economy from being based on manufacturing to being dominated by services. China was a key factor in this transition. The portion of Hong Kong's work force that was employed in manufacturing plunged from a peak of 46 percent in 1980 to 15.3 percent in 1995. In addition, the proportion of GDP generated in the manufacturing industry fell sharply from 24 percent in 1980 to 9.2 percent in 1996 (Berger and Lester 1997, p. 24). According to one estimate, by 1995, 79 percent of the work force of 3.1 million was employed in the service industries (China Hongkong Business 1998). The process of economic transformation and industrial restructuring has created new groups of labor aristocracy, consisting of those with the requisite skills and knowledge, while reducing others to deprived or even impoverished positions of marginalization and "deskilling," notably industrial workers (Wilding and Mok 1997, p. 156). Unemployment figures rose to historical highs in 1997 and 1998, highlighting the pains of economic restructuring that were exacerbated by the regional financial turmoil. In the prosperous 1980s, unemployment averaged merely 2 .percent. However, it rose to 3.5 percent in 1995 and to 5.8 percent in December 1998.

A second factor relating to social polarization in a global city concerns the welfare regime, where the availability of social provision influences the extent and pattern of polarization. In Hong Kong, two cardinal principles governing the overall level of public expenditure constrain social spending. First, in 1976, policymakers in Hong Kong determined that the size of public sector expenditure should not exceed 20 percent of GDP. Second, in 1987 they proclaimed that growth in public expenditure should not exceed the rate of growth of GDP. Even with these guidelines, Hong Kong's expenditure on social security assistance has been growing at high double-digit rates every year since 1991, registering, for example, a 73 percent increase in 1993–94. A potential crisis in Hong Kong's social security system is looming as increasing numbers of recipients originate from an aging population and mounting unemployment and underemployment. Demands to increase allowance levels will also put pressure on the social security system. Lui (1997) estimates that in December 1996 some 640,000 people lived in abject poverty, defined at HK$600 per person per month in 1994–95.

The third factor involved in social polarization in global cities is migration. Migrants tend to be concentrated in low-paying jobs (Sassen 1991). Even with selection mechanisms, lack of recognition of formal qualifications forces many migrants to accept low-status, low-grade, and low-income jobs (Baum 1997). In certain societies in Pacific Asia, an increasing number of professional families with two income earners require domestic servants; migrant women meet this need. These women earn wages that are lower than what can be earned in the formal economy, hence a polarization in terms of employment and in ethnicity is the outcome (Burgers 1996). In Hong Kong in particular, the migration factor has added to social polarization. On one end of the social spectrum are highly paid expatriate employees from Australia, Europe, and North America who swamped Hong Kong prior to 1997. During 1995, some 19,030 professionals and others with technical, administrative, or managerial skills from more than 60 countries were admitted for employment (China Hongkong Business 1998). On the other end of the spectrum are low-paid female domestic helpers, mainly from the Philippines, who contribute significantly to the increase in total measured inequality. Above all, Hong Kong accepts 150 Chinese legal immigrants daily, or 54,750 per year. These immigrants continuously affect the distribution of income. Some researchers have suggested that if the new immigrants from Mainland China were removed from the population, less income dispersion would exist. In addition, researchers found a third of the increase in measured inequality to be attributable to the different types of immigration noted earlier (Lam and Liu 1998).

During the past two decades, Hong Kong has experienced impressive economic growth. One indicator that this growth has been externally driven is the sharp rise in the number of regional headquarters and regional offices from 1,846 in 1994 to a peak of 2,514 in 1997; in 1998 this number decreased marginally to 2,449 (Industry Department 1998). Hong Kong's status as a financial center and a global metropolis is affirmed in a recent study (Meyer 2000). Hong Kong has acted as an effective conduit for FDI and other economic activity to fuel China's modernization and development. This globally driven economic growth, while partially targeted at China, has generated enormous wealth within Hong Kong. At the same time, social polarization has deepened, as measured by income distribution, Gini coefficients, and rising numbers of social welfare recipients. This trend has been particularly apparent since Hong Kong's return to China, but the regional financial crisis has naturally clouded the relationship.

Nevertheless, the evidence supports the hypothesis that social polarization will increase as economic growth powered by globalization continues to race ahead in Hong Kong.

A Policy Framework

Poverty is the outcome of a process of human impoverishment that combines absolute deprivation and unequal access to the political, economic, and social assets of society. In the urban areas of Pacific Asia a pattern of uneven development prevails because of the increasing concentration of population into megacities and world cities and rapid economic growth based on export-led manufacturing that result from the twin processes of urbanization and globalization. As the region increasingly becomes economically well integrated, workers are placed under pressures of global competitiveness, and an enlightened policy framework becomes necessary to relieve the plight of the urban poor. Globalization is a double-edged sword; it brings new wealth and opportunity to some countries and individuals, but marginalizes others. Surging economic impulses have lifted many countries and individuals during the past two decades. However, in the new urbanizing and globalizing environment central governments must devise policies that can target the increasingly marginalized urban poor who will not be able to break free from the vicious cycle of poverty on their own. This policy framework should be based on development experience of the recent past.

First, the *World Development Report 1990* stresses the merit of a dual approach to reducing poverty that combines efficient, labor-intensive growth with adequate provision of social services (World Bank 1990). The policy statements of both the World Bank and the United Nations Development Programme ushering in a new decade in 1991 stressed the promotion of the urban labor force and small manufacturing enterprises to expand production (UNDP 1991, pp. 46–47). Improved productivity can be achieved by increasing labor intensity and the human capital of the poor by investing in education, health, and nutrition (World Bank 1991, p. 45). In addition, poverty-reducing growth should be promoted by increasing urban employment, improving access, and providing subsidies.

Second, based on the Asian experience in urban poverty alleviation, a recent study has outlined four major ingredients of an effective approach. These are broadly based economic growth, outward-looking development strategies, flexible labor market policies, and support to the urban informal sector (Mathur 1996). Government assistance for the last can be crucial. Governments can provide incentives by changing regulations and providing adequate infrastructure services to increase the productivity of informal sector enterprises. A more collaborative approach that is accommodating to the informal sector has the potential of further enlarging the sector's employment generation ability. Recommending outward-looking development strategies does not contradict some of the warnings against the negative aspects of FDI mentioned earlier as long as governments take steps to protect local workers.

Third, political support for the institutions that are favorable to the poor and to market and growth reform must be enhanced. Those who gain from policy reforms are usually unorganized, spatially dispersed, poorly educated, and politically weak, even though there may be many of them. Advocates of reform policies, including academics and social action groups, are seldom sufficiently influential by themselves to bring about reforms, but they have performed a vital civic duty in championing the cause of the urban poor (Pernia 1994, pp. 35–36).

Fourth, governments need to nurture enabling environments by being prepared to empower credible community groups and people and working in partnership with them to improve the lives of the urban poor. This necessitates democratic decentralization of authority, an attitudinal change, and new funding mechanisms to channel resources to poor communities and families. This is the essence of the search for evolving, effective urban governance models, which have become increasingly important. Urban institutions born in a former era are not equal to the challenges that have emerged in an age of globalization. New ones must be created that can more effectively resonate with and respond to the ever-changing problems and needs of the people.

Finally, access of the poor to political, social, and economic assets of society must be improved. Target programs, special funding, and subsidies are some of the strategies that can be used to assist the poorest of the poor. The demographics of Pacific Asia suggest that the number of elderly, infirm, disabled, and so on is likely to increase in the future.

The *Human Development Report 1997* discusses the theme of poverty as the critical issue of our time (UNDP 1997). While the 20th century witnessed unprecedented progress in reducing poverty, eradicating abject poverty worldwide in the 21st century is not only a moral imperative, but also an achievable goal. Indeed, 117 heads of state at the World Summit for Social Development in Copenhagen in 1995 committed themselves to the goal of eradicating poverty in the world. In the developing world, Pacific Asia is a good place to start the eradication of urban poverty. Regional financial turmoil derailed many national development plans. However, this should not deter the region from achieving its ultimate and long-term goals.

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