

Asia's Fight Against Poverty

THIS EDITION of *Issues & Trends* features highlights of the presentations at the Asian Development Forum held in Bangkok in June 2001 by the UN Economic and Social Commission for Asia and the Pacific, the World Bank and the Asian Development Bank. It brought together senior economists, policy-makers and planners from throughout the Pacific Asia region to discuss ways to alleviate poverty in Asia, now considered the over-arching goal of governments and multilateral finance organisations.

The Pacific Asia travel and tourism industry is only a part of the economic fabric in any country. The winds of socio-economic and political change are now blowing with great gusto throughout the region.

By far the single greatest threat to stability is the poverty that exists not only within Pacific Asia but also worldwide. Even as they try to address this, regional governments are being tasked with the responsibility of managing globalisation and social issues. How all three are managed will have a significant impact on the future of the region and, in turn, outbound/inbound travel.

The Pacific Asia region accounts for 800 million poor people, most of them in China (PRC), India and Indonesia, living on less than US\$2 a day. The significant progress made in reducing poverty in the early 1990s was interrupted, and reversed, by the economic crisis. In the new economy, forecasters say that vulnerability of the poor is likely to become more acute with resource depletion and macroeconomic shocks and uncertainty. That is not good news for travel and tourism.

The UN Millennium Summit declaration reaffirmed a commitment to halve extreme poverty by 2015. This goal will need to be met against the backdrop of four critical push-and-pull factors:

- **Economic vulnerability:** One legacy of the 1997 financial crisis is a heightened awareness of the vulnerability of states to external economic forces which undermine economic sovereignty. With increased economic integration between and within countries, a crisis in one part of the region today can be transmitted even to remote areas in another part of the region. This makes the poor more vulnerable.

- **Political fragmentation:** In several states, strong forces are jockeying for power, some the result of the rural-urban divide, others stimulated by ethnic diversity and struggles for independence and autonomy. Whether national governments can successfully devolve power will be a key factor in the enhancement of state capacity.

- **Democratisation:** There is a growing assertion of the power and rights of citizens against established structures of authority, and demands for new forms of participation and accountability. States are finding it difficult to regulate the production and dissemination of ideas and information. The growing freedom of the media is both a major source of instability for old regimes, and a stimulus for reforms seeking to enhance state capacity in new ways.

- **Internationalisation:** Some of the critical factors underlying social and political change within national borders are no longer confined to or shaped by those borders. Trans-national organisation and cooperation in the production and dissemination of reform ideas and experience is growing rapidly. So, too, is the power of NGOs and international agencies.

Political Changes

Many popular Pacific Asia tourism destinations in the pre-crisis days have seen their industries devastated by political problems. Political volatility is a fact in much of the region due to:

WILL THERE BE ANOTHER FINANCIAL SHOCK?

The 1997/98 financial crisis gave an important lesson to many Developing Member Countries (DMCs, of the Asian Development Bank) on the risks of financial integration. Not surprisingly, therefore, concerns have been raised as to whether such a crisis could happen again. There are several reasons for believing that the current situation is fundamentally different from that of 1997/98, and that another crisis is, therefore, extremely unlikely.

1. First, and most important, the external shock that the region faces this year is primarily a real rather than a financial shock, related to the slowing in one of the region's major consumer markets (the U.S.).

2. Reflecting policy reforms and adjustments since the financial crisis, many DMCs have considerably stronger external situations than a few years ago.

3. The structure of capital flows to many DMCs has changed since the mid-1990s with portfolio flows and relatively stable foreign direct investment (FDI) largely replacing volatile short-term bank loans.

4. Many DMCs – including several with relatively open external capital accounts – have adopted more flexible exchange rate arrangements.

5. Many DMCs have embarked on comprehensive reform programmes to enhance the safety and soundness of their financial systems and strengthen corporate sectors.

6. Transparency has been improved considerably in many DMCs, making the reappearance of the kind of regionwide negative surprises that figured prominently in the 1997/98 crisis more unlikely.

7. The degree of leverage and the activities of

investment hedge funds have been cut back in the last few years, making the intense speculative pressure that was evident in the earlier crisis less likely.

Against this background, the current situation appears quite different from that of 1997/98. Yet, this does not imply that DMCs should be complacent about the outlook for 2001. In this connection, some vulnerabilities are:

- High dependence of recoveries in some DMCs on export growth (despite recent pickups in domestic demand)
- Concentration of some DMCs' exports in a relatively few product groups, such as technology goods that are currently slowing sharply as the U.S. weakens
- Incomplete progress in financial sector restructuring as reflected in either continued relatively high levels of non-performing loans and/or inadequate provisioning for bad loans
- Inadequate progress in corporate restructuring as reflected in poor profitability and/or continued high leverage ratios
- Unbalanced recoveries in which some domestic sectors (such as construction) and certain demand components (such as investment spending) have remained relatively weak, even with rapid GDP growth, and
- Political difficulties and uncertainties that may impair DMCs' ability to deal effectively with the problems created by a growth slowdown. This may hinder the pace of economic recovery and reform.

(The above was excerpted from the Asian Development Bank's 2000-2001 *Development Report*.)

- (1) Changes of government
- (2) Changes of leadership
- (3) Changes in the structure and coherence of political parties
- (4) Major institutional changes like constitutional amendments and adjustments in power relations between different branches of government, and

- (5) Major policy reversals, largely due to indecisive leadership and fragile political coalitions.

High political volatility makes it harder to maintain policy consistency. In countries where the economic bureaucracy is more politicised, high volatility can impact on key economic policies, leading to policy reversals and paralysis. The greatest danger is that the fragile coalitions

HOW DOES TOURISM ALLEVIATE POVERTY?

Tourism is a highly decentralised industry which offers a good combination of urban and rural experiences. In many parts of the Pacific Asia region, there is now a growing movement towards linking agriculture – the traditional bedrock of an economy – with tourism, in order to compensate for the decline of global commodity prices.

Tourism reduces urban migration. Through the construction and operation of hotels and other facilities rural people find jobs and have less of a reason to head for the big cities. Hotels are major purchasers of local produce, especially farm goods.

Tourism is also a major employer of women who, in most parts of Pacific Asia, are usually the worst off socially and economically. More than any other industry, tourism gives the poor a chance to learn new languages, acquire new skills and enter a new realm of job opportunities.

Many craftsmen find their traditional forms of weaving, metal-working, wood-carving, even music and dance can be used profitably. Shopping by tourists is now considered just like exporting a product, minus the duties, taxes and quotas that exports of those same products would face when sent to another country through the usual commercial and transportation channels.

would trade short-term political gains to ensure their political survival at the expense of long-term public interests.

Economic Issues

While travel and tourism is a major contributor of jobs, GDP growth and foreign exchange to many economies, the overall recovery depends to a great extent on the pace of exports. For better or worse, both tourism and exports are likely to be affected by:

- The projected slowdown in the U.S. economy
- China (PRC)'s entry into the World Trade Organization
- The economic slump in Japan.

Indeed, many countries are facing an increasingly difficult investment climate due to higher perception of risks. The economic contraction has seen a decline in domestic revenues as well as official development assistance. As a result, a more significant role is emerging for the private sector in financing public investment.

Countries are also having to cope with problems arising from rapid globalisation, helped by the much faster and more efficient means of communication such as the Internet. The impact of globalisation on the world's financial markets has brought new challenges and hastened the search for progress in creating new regional financial arrangements to maintain the safety and soundness of the financial system.

Financial Issues

To battle poverty by fixing their economies, governments are having to fix their financial systems first. Important policy areas include exchange rate management, current account management, short-term capital inflows and supervision, and prudential norms. All these affect the value of the national currency which is a significant factor for hotels and airlines.

Portfolio capital flows can be highly volatile, and destabilising. Central bankers in the Pacific Asia region in particular, now appreciate the crucial importance of prudential supervision and regulation. Policymakers agree that transparency in financial operations is important to build confidence among domestic and foreign investors. However, an improved international financial architecture to control the activities of rogue currency speculators is an important issue that has not yet been adequately addressed.

Institutions like the Asian Development Bank (ADB) have started monitoring regional and sub-regional economic performance, policies and institutional issues. The ADB has also developed a mechanism to disseminate the results of monitoring to promote prudential economic management in developing member countries.

There is a pressing need for sound governance – both financial and corporate. Newer business strategies ranging from mergers and acquisitions to e-business are lacking in the Asian economies. Debt and fiscal policy management is being made

more complex by globalisation. Greater regional economic integration through trade and capital flows would imply higher long-term benefits to the region and an effective barrier against future crisis.

Technological Issues

As the digital economy expands, all businesses are projected to become e-businesses, with travel and tourism being a major beneficiary. The Internet, multimedia and wireless communications will grow exponentially, as the cost of bandwidth drops dramatically and processor capacity increases. However, as many new players join the industry, the new business environment will be competitive and volatile.

Many initiatives are under way to provide fast Internet connectivity in the region through optical fibre networks, submarine cables and satellite systems. China (PRC) is adding about 50 million terminals per year. India is enjoying a high growth of software exports and expertise. The sharp downturn of Internet/dot-com companies became a valuable lesson. People are taking more care with their business models.

On the other hand, the digital divide is a reality – 35 countries in the Pacific Asia region have fewer than 10 telephones per 100 population. Many countries are still dominated by a monopolistic regulatory environment, over-regulation of tariffs and technology, uneven playing fields, unclear and inconsistent policies, and a lack of capital, technical and managerial expertise. The investment climate in information and communications technology initiatives remains unattractive due to political, economic, and employment policies.

Most challenging is the uncertain legal framework relating to intellectual property rights, e-commerce, privacy and security. Cyber crime remains a major threat, as hackers and criminals transmit computer viruses, steal and corrupt valuable information, perpetrate frauds, manipulate stock markets and invade privacy. Combating it is a serious problem in the absence of technical expertise, adequate legal instruments and international coordination among national law enforcement agencies, computer and Internet industries.

Social Issues

Addressing poverty and vulnerability will take efforts not only to improve income levels and economic opportunities but also health and education outcomes. About one in every 65 women living in the Pacific Asia region faces a lifetime risk of dying from pregnancy-related causes. Child mortality

remains high, especially among the poor. The region also faces the threat of HIV/AIDS, TB and other such diseases that have a huge cost in terms of both money and productivity.

In terms of education goals, such as achieving universal primary enrolment by 2015 and gender equality in primary and secondary education by the year 2005, the region is largely on track. But major changes are also seen to be necessary to move educational systems away from the old methods of learning by rote to interactive, participatory and activity-based systems that enhance critical thinking and analytical ability and encourage creativity. Educators say that many systems have not been inclined to teach students how to learn from failures, nor to reward new initiatives. A methodology based on the herd mentality has to change.

Opportunities

In spite of its enormous challenges, economists agree that opportunities are emerging for rapid economic development. As countries transform into knowledge economies and increase their competitiveness, employment opportunities are increasing for workers. New jobs are being created which require new skills, such as flexibility, team-work and IT expertise. As the demand for these skills increases, the premium for education grows rapidly.

Many Pacific Asia governments have responded and continue to respond to these opportunities for growth and employment by promoting public and private initiatives in the areas of educational reform, lifelong learning programmes and workforce training. The poor need to be included and benefit from these new opportunities.

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