From low income, high poverty to high-income, no poverty?

An optimistic view on the long-run evolution of poverty in Indonesia by international poverty lines, 1984-2030

Andy Sumner, King’s College London
1 of 5 papers on long-run poverty evolution
1. $1.25/$2/$10, 1984-2030, Susenas (Edward and Sumner, 2013)


3. Multi-dimensional poverty (MPI), 1993-2007, IFLS (Sumner/Apablaza/Balloon, in process)

4. Chronic/Transient poverty, 1993-2007, IFLS (Sumner/Apablaza/Balloon, in process)

5. “Voices”, qualitative, 1980/90s-present (in process)
First, the conclusions...
Three conclusions...

1. Indonesia has the **potential to attain high-income country status** in a decade or so and the **potential to end $1.25 and $2/day poverty** over the same period.

2. But... the end of poverty in Indonesia may be **accompanied by a large proportion of the population vulnerable to poverty** for some considerable time to come.

3. And... surprisingly, **poverty is much more urbanised by $PPP poverty lines** - more than half the poor residing in urban areas and proportion likely to rise in future?
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3. Indonesia and $PPP poverty lines – GrIP methodology

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1. Introduction
1. Introduction

- Indonesia has achieved **drastic improvements** in average incomes and in the reduction of poverty.

- Much research has discussed this with **national poverty lines**

- This paper adds to the literature **with an alternative and complementary perspective** - **$PPP poverty lines**
Indonesia’s economic development is impressive
And structural transformation...
International comparisons...
<table>
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<th></th>
<th>LICs</th>
<th>LMICs</th>
<th>Indonesia</th>
<th>UMICs</th>
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<td><strong>2010 (or nearest year)</strong></td>
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<tr>
<td><em>Agriculture as a % of total employment</em></td>
<td>n.a.</td>
<td>11.8</td>
<td>35.9</td>
<td>17.9</td>
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<td><em>Agricultural raw materials (% of merch. exports)</em></td>
<td>9.7</td>
<td>1.9</td>
<td>6.6</td>
<td>1.1</td>
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<td><em>Ores and metals exports (% of merch. exports)</em></td>
<td>7.4</td>
<td>5.9</td>
<td>9.9</td>
<td>4.3</td>
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<td><strong>Convergence with High-Income OECD</strong></td>
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<td><em>GDP pc (PPP 2005 $) as a % HIC OECD, 1990</em></td>
<td>7</td>
<td>16</td>
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<td><em>GDP pc (PPP 2005 $) as a % HIC OECD, 2008</em></td>
<td>6</td>
<td>16</td>
<td>19</td>
<td>43</td>
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<tr>
<td><em>GDP pc (PPP 2005 $) (1990 = 100)</em></td>
<td>138</td>
<td>188</td>
<td>178</td>
<td>355</td>
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What do empirical studies of the evolution of poverty by the national poverty line say?
(a) Studies focused on long-run trends in expenditure poverty
• **Absolute poverty declined** during the Soeharto years (Asra 2000; Booth 2000; Friedman 2005). However, poverty was still significant before the 1997/8 financial crisis, and may have been underestimated (Asra 2000).

• **Welfare improvements slowed in the period after the 1997/8 crisis** (Friedman 2005; Friedman & Levinsohn 2002; Lanjouw et al. 2001; Skoufias et al. 2000; Suryahadi et al., 2012). Much of this was due to an increase in chronic—meaning long-run—poverty (Suryahadi & Sumarto 2001, 2003a, 2003b).

• **Vulnerability to poverty has also increased** resulting in a large number of households experiencing transient poverty (Suryahadi & Sumarto 2001, 2003a, 2003b; Pritchett et al. 2000; Widyanti et al. 2001).
(b) Studies focused on the long-run relationship between expenditure poverty and economic growth
Overall, economic growth in Indonesia has benefited the poor, with a high and stable growth elasticity of poverty even after the 1997/8 crisis (Baliscan et al. 2010; Friedman 2005; Suryahadi et al. 2012; Timmer 2004).

However, economic growth in different sectors is associated with quite different impacts on poverty (Fane & Warr 2002; Suryahadi et al. 2006; 2012).
(c) Studies focused on long run inequality
• Before the 1997/8 crisis, inequality was relatively low or declining (Akita et al, 2011); inequality did not increase drastically as a result of economic growth (van der Eng, 2009) or... inequality was high or increasing pre-crisis (Frankema & Marks, 2009; Leigh & van der Eng, 2010; van Leeuwen & Foldvari, 2012)

• Overall, growth has been largely distributionally neutral, although areas such as Java have grown faster than the national average (Hill, 2008; Hill et al, 2008)

• Inequality has increased post-crisis; mainly intra-group and urban-rural inequality (Akita, 2002; Akita & Miyata, 2008, Skoufias, 2001; Sumarto, 2013; Suryadarma et al, 2005; 2006; Yusuf and Rum, 2013).
3. Indonesia and $PPP poverty - GrIP methodology
3. Indonesia and $PPP poverty - GrIP methodology

• Decile values and survey means – Povcal

• Household Final Consumption (HFC) data - WDI

• Population data for urban and rural - Povcal and urban/rural split in the forecast populations is based on a linear extrapolation of the change in the shares from 1990 to 2010 which is then applied to the UN total population forecast
Growth and distribution scenarios

- **‘Optimistic’ economic growth scenario** (graphs in this ppt): IMF WEO = average of 6.7 %/annum for Indonesia [too optimistic or less ambitious than GoI?]

- **‘Moderate’ economic growth scenario**: IMF WEO minus 1% (historic error of IMF) = average of 5.7 %/annum for Indonesia

- **‘Pessimistic’ economic growth scenario**: 50% of IMF WEO = average of 3.4 %/annum for Indonesia

- **Static inequality**

- **‘Dynamic’ inequality** = linear extrapolation of the trends calculated from 1990 to 2010 [overly pessimistic?]

- **‘Best-ever’ distribution** = return to the lowest-inequality in Povcal (1999 for rural Indonesia; 1987 for urban Indonesia). [unrealistic?]
Three international poverty lines

- **$1.25/day** = extreme poverty measure and currently close to Indonesia national poverty line (Yusuf, 2013).

- **$2/day** = median for all developing countries (Ravallion, 2012)

- **$10/day** = security from poverty or ‘middle class’ line? (López-Calva
4. Historical patterns and projections
4. Historical patterns and projections

a) Income per capita trends

b) Historical patterns of growth

c) Trends in inequality

d) Trends in poverty
GNI per capita, 1984-2030 (forecasts by optimistic growth)
GDP (PPP) pc, 1984-2030 (forecasts by optimistic growth)
How broad-based has growth been?
How does Indonesia compare?
Poverty reduction
Poverty, 1984-2030 (forecasts by optimistic growth)
Rural poverty, 1984-2030 (forecasts by optimistic growth)
Urban poverty, 1984-2030 (forecasts by optimistic growth)
Conclusions
Three conclusions...

1. Indonesia has the potential to attain high-income country status in a decade or so and the potential to end $1.25 and $2/day poverty over the same period.

2. But... the end of poverty in Indonesia may be accompanied by a large proportion of the population vulnerable to poverty for some considerable time to come.

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ANNEX SLIDES
The urban/rural proportion question?

National poverty line as % $1.25

Comparison of headcounts

Urban National %
Urban GrIP %
Urban Povcal %
Rural National %
Rural GrIP %
Rural Povcal %
Rural and urban density curves

Rural

Urban

Input Criteria
Aggregate: HFC
Filled: Yes
NA/S option: 1

Income ($PPP per capita pa) - log scale
What happened to inequality?
Share of GNI, 1984-2011
Total poverty gap (US$bn PPP), 1984-2030 (forecasts by optimistic growth)