

Meijo Asian Research Journal

2010.03

Vol.1 No.1
Separate Volume

Meijo Asian Research Journal



Meijo Asian Research Center
Meijo University, Japan

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Articles

TRANSFORMATION OF SOCIO-ECONOMIC STRUCTURE OF HO CHI MINH CITY UNDER THE DOI-MOI POLICY AND THE ACCOMPANYING GLOBALIZATION PROCESS

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Abstract

Vietnam, and in particular Ho Chi Minh City (HCMC), have experienced rapid socio-economic change echoing the global economy since 1986, when the central government started to implement the Doi-Moi policy, an overall economic reform. This study aims to clarify (1) how the socio-economic structure of HCMC has been changing under the Doi-Moi policy and the globalization process of Vietnam, and (2) what the mechanism of these changes is, including the relevant government policies. We can see the positive results of industrialization in terms of economic growth, modernization and formalization of industries. The favorable economic cycle of increasing foreign direct investment (FDI) and trade, Gross Regional Product (GRP) growth, emergence of private sectors, formalization of the economy and expansion of the local population and market has been formed gradually as part of the economic development of HCMC. These changes are due to a reciprocal impact process between the macro legal framework reform conducted by the central government and the development policies mapped out by the HCMC local government. Under the globalization process together with the local industrialization, there have obviously been transformations of HCMC society. The transformation of society has been revealed in the form of (1) formalization of society, (2) improvement in income and consumption and expansion of disparity, and (3) urbanization with massive migration.

KEY WORDS : Globalization process, Doi-Moi Policy, Transitional economy, Industrialization, Ho Chi Minh City, Vietnam

1. Introduction

1.1 Background

Economic globalization is an indispensable tendency that has been occurring in many countries and cities in the world. Through articulation of the global economy with open economy policies, many developing countries have been promoting the industrialization and modernization of their societies. This has been particularly true in East and Southeast Asia. A World Bank report entitled *The East Asian Miracle*, presented several such success stories¹⁾. Ya Ping Wang also stressed that an important indicator of recent global connections is foreign direct investment (FDI) in China, which grew exponentially after 1991. As a result of FDI, many cities along the coastal areas have been “globalized”²⁾. Of course, articulating the global economy will not guarantee success in industrialization and modernization. Success relies on how a respective state wisely incorporates the global economy in its own contexts. The globalization process has positive and negative aspects,

and governments must extend the positive aspects and mitigate the negative impacts.

In this study we examined the globalization of Vietnam as one of the Asian transitional economies and looked for an association between the globalization and the transformation of Vietnamese socio-economic structure and urban society, taking government intervention into account. Large cities, as typical FDI destinations, play an important role in linking the national and global economy. In this study, we selected Ho Chi Minh City (HCMC) as a case study area. HCMC is recognized as one of the engines driving Vietnam’s economic growth.

Although there have been studies of the development process at the national level and in HCMC, they mainly focused on economic development rather than the transformation of society in HCMC. The book *Economics of Ho Chi Minh City – 30 Years of Construction and Development*,³⁾ issued in 2005 by the Institute for Economic Research of HCMC (IER), mainly focused on successful enterprises in HCMC in manufacturing and the service sector between 1975 and 2005, without mentioning the transformation of society. Dinh

Son Hung (IER, 2006), in the paper titled “Impact assessment of FDI on the labor market in HCMC,”⁴⁾ when examining the relation between FDI investment and the HCMC labor market in 2006, pointed out the qualified labors in some foreign enterprises without analyzing the shifting structure of labor under globalization. Nguyen Van Quang, in the paper titled “Impact assessment on socio-economic changes in HCMC after 2 years accessing to WTO in Vietnam,”⁵⁾ assessed the changes of labor, employment, education and health care status, but in a rather fragmented manner. Authors outside of Vietnam have also dealt with globalization in the broader scope of Southeast Asia, such as Peter A. Coclanis and Tilak Doshi (2000),⁶⁾ but they did not include data at the city level.

Our goal was to study the process of societal transformation in HCMC associated with the legal reforms of Doi-Moi policies and the globalization process. We aimed to clarify (1) how the socio-economic structure of HCMC has been changing under the Doi-Moi policy, and (2) what the mechanism of these changes is, including the relevant government policies. By exploring these questions, we hope to gain a comprehensive understanding of the globalization of HCMC and Vietnam and its impact on the socio-economic transformation. Such knowledge could assist the government in its policymaking geared toward further integration into the global economy.

1.2 Analytical Framework and Methodology

We used longitudinal data analysis based on a chain of secondary data from 1990 to 2008 to examine the impact on society of regional and global economic integration in Vietnam and HCMC. We focused on aspects of the transitional

economy during globalization in relation to the changes of socio-economic development in HCMC. Through analyzing the process of legal framework reform, we are also able to address the changes of some socio-economic indicators such as FDI, trade, economic growth, employment structure, income, educational backgrounds and the like. We hope our findings will lead to a more comprehensive understanding of the impact of globalization on the Vietnamese transitional economy. The analytical framework of the paper is shown in Fig. 1.

2. Economic Reform and Articulating the Global Economy in Vietnam

The Doi-Moi policy in Vietnam was initiated in December 1986, when the 6th Party Congress mapped out an economic reform policy for Vietnam³⁾. The economic reform has conspicuously accelerated socio-economic development in Vietnam. The most important reform policy was that the Vietnamese government decided to shift from the centrally planned economy to a market-based economy through the initial establishment of a multi-sector economy that was operated under the market mechanism and followed a socialist orientation. Concurrently, the government decided to promote economic reform by opening the Vietnamese economy regionally and globally. To achieve successful economic reform, the government has implemented several relevant institutional reforms, including the introduction of capital and technologies by promoting inward FDI, developing a multi-economic sec-

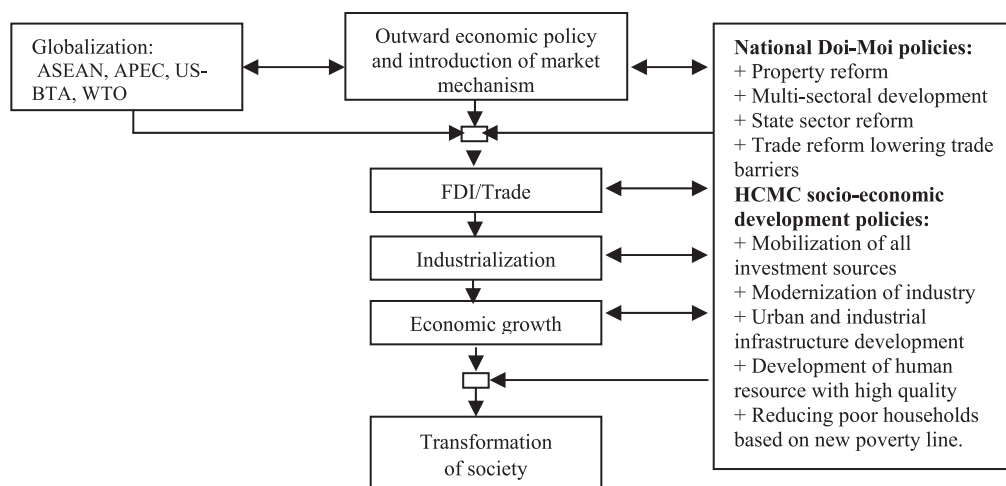


Fig. 1: Analytical framework

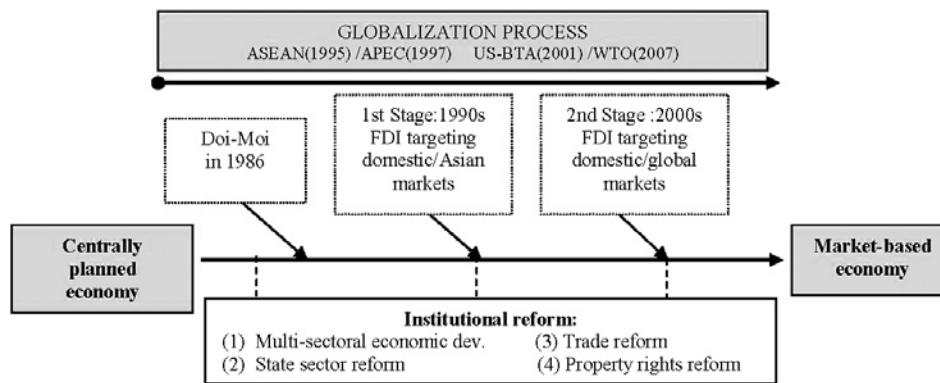


Fig. 2: The process of economic reform as related to the global economy

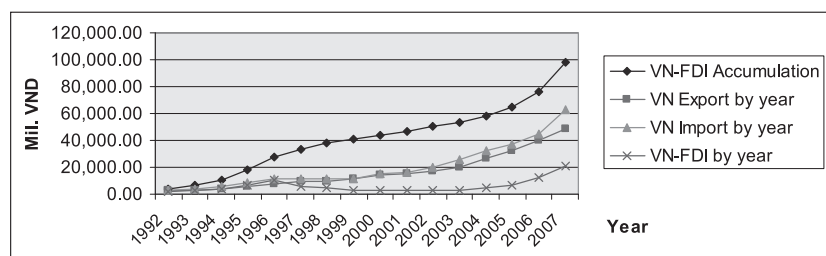


Fig. 3: Registered FDI capital accumulation, export, import turnover and yearly FDI capital in Vietnam

Source: HCMC Statistical Office; graph created by the authors

tor, reforming the state sector, promoting international trade and instituting land law reform. The opening economy policy has impacted the globalization of Vietnam. The government enacted relevant laws step by step such as the Foreign Investment Law in 1987 and the first Private Enterprise Law in 1990 and renewed or adjusted them in the process of global integration.

The Doi-Moi policy has been practically implemented since the beginning of the 1990s. The period of 1986 to 1990 was regarded as a preparation period. In around 1990, many socialist countries that supported Vietnamese economy, including the former Soviet Union and Eastern European countries, collapsed, so that Vietnam faced much more pressure to make its own economic reform. Since then, the government has been coping with reform in not only the legal setting, but also at administrative levels. Under the emerging Asian market, this resulted in massive FDI to Vietnam during 1991–97. Joining ASEAN in 1995 and APEC in 1998 also enhanced international linkage with Vietnam.

The US-Bilateral Trade Agreement (US-BTA), signed in 2001 and calling for the full satisfaction of the ASEAN Free Trade Agreement (AFTA) obligation by 2006, and the affiliation with the WTO in 2007 led Vietnam to deeper integration of the global and regional economy as the second stage. The US-

BTA provided Vietnam with much better access to the US market, so that Vietnam could consolidate its export base for domestic and foreign affiliates, while Vietnam in the 1990s attracted FDI targeted for domestic and Asian markets. For the target of joining the WTO, many important Vietnamese laws such as the common investment law, enterprise law and trade law were renewed to make them suitable for the new situation. These actions resulted in positive economic development in Vietnam, and affected the country's economic recovery after the Asian financial crisis during 1997–1999. The GDP growth rate and FDI capital were recovered to the same level as before 1997 by the beginning of the 2000s.

3. Transformation of the Economy of HCMC under the Doi-Moi Policy and Globalization

3.1 Change in Economic Structure of HCMC under the Doi-Moi Policy

Under the Doi-Moi policy associated with the globalization process, the economic structure of HCMC has been changing since 1990. The transformation of the economy can be recognized as occurring in two stages, namely (1) industrialization led by massive FDI in the 1990s and (2) overall modernization

of industry with emergence of the private sector after 2000.

3.1.1 The 1990s : Industrialization led by FDI

Based on Doi-Moi Policy, HCMC's economy grew rapidly

with a pace of more than 10% annually in the 1990s. The gross regional product (GRP) growth rate of the industry was 14.8% per year in the period of 1991–1999, while the growth of the service sector obtained 10.3% annually. The manu-

Table 1: The process of legal framework reform articulated in the periods of economic integration in Vietnam

REFORM	1986–1989 (preparation)	1990–1999 (the first global integration)	2000–2008 (the second global integration)
I. PROPERTY RIGHTS REFORM	<ul style="list-style-type: none"> ○ The first Land Law, issued in 1987, did not recognize the price of land and did not permit for official transaction (land belongs to population under management of govt.). ○ The market of land use right was not acknowledged and all land transactions were implemented by informal contract and legalized later. 	<ul style="list-style-type: none"> ○ The second Land Law, issued in 1993, regulated land prices as a basis to collect taxes, land use fees or compensation costs upon acquisition of land (30% market price) ○ The market of land use is initially acknowledged by defining 5 rights of a land user (transaction, rental, inheritable, mortgage and pooling). 	<ul style="list-style-type: none"> ○ The supplementation to the Land Law in 2001 emphasized the right of land users to mortgage their land use right at the banks. ○ The Land Law of 2005 regulated that land prices must be based on market prices when the govt. assigns land use rights or compensation for acquisition purposes. The government can re-evaluate the value of land use right in the case of investing on public infrastructure. The regulations of international treaties signed by the national government will be replaced by this law (if different regulations).
II. MULTI-SECTORAL ECONOMIC DEVELOPMENT (Domestic inv.)		<ul style="list-style-type: none"> ○ The Domestic Investment Law of 1994 indicated favored conditions for new business establishments, such as reduction of income tax (50%) from the first 1 to 2 years. ○ The supplementation to the Domestic Investment Law in 1998 indicated more favored conditions, such as reduction of land use fees or rental fees or land tax by 50%; enterprise receives favored credit. 	<ul style="list-style-type: none"> ○ The Common Investment Law of 2005 (for both foreign and domestic investors) regulated many types of investment, including indirect investment (stock market, bonds, shares and other values papers). The government treats all kinds of investors equally and facilitates equally good conditions for all investors. The time of land use right of a project is only 50 years and maximum 70 years for all investors.
(Foreign investment)	<ul style="list-style-type: none"> ○ The Foreign Investment Law of 1987 indicated joint-venture and 100% foreign capital types. ○ Encouraged fields got favored conditions such as exemption of income tax, max. 2 years, and reduced income tax (50%) for 2 additional years. ○ Supplement to the Foreign Investment Law in 1990 added type of Export Industrial Zone, BOT and the time of project operation (50 – 70 years). 	<ul style="list-style-type: none"> ○ The second Foreign Investment Law of 1996 regulated the types of BOT, BTO, BT and operation of projects. ○ This law increased the favored conditions for encouraged fields such as exemption of income-tax for a max. 4 years and reduction of income tax by 50% for 5 more years. 	
(Enterprises)	<ul style="list-style-type: none"> ○ The Private Enterprise Law of 1990 indicated complex procedures for obtaining an establishment license and registering with local authorities (after 60 days), published in the newspaper (after 30 days). 	<ul style="list-style-type: none"> ○ The supplementation to the Private Enterprise Law in 1994 modified the requirement to be “registration paper” instead of “establishment license”. It regulated a simpler procedure by feeding back within max. 30 days. ○ The new Enterprise Law of 1999 regulated limited companies, sharing companies, collective name companies and private companies. 	
III. STATE SECTOR REFORM		<ul style="list-style-type: none"> ○ The State Enterprise Law of 1995 regulated independent enterprises and corporations established by state capital. ○ Prime Minister or Ministers, chairman of PC of big city decide for establishment 	<ul style="list-style-type: none"> ○ The Law of State Enterprise of 2003 indicated 2 types of state enterprise: (1) 100% state capital and (2) dominant share of a state capital as stock or limited company. ○ The minister/chairman of a big city could issue a decision to establish a new state company. ○ The Enterprise Law of 2005 regulated all forms of companies (state companies must transfer into limited companies or sharing companies). The regulations of international treaties signed by the government will be replaced by this law (if different regulations).
IV. LOWERING TRADE BARRIERS		<ul style="list-style-type: none"> ○ The Law of Trade of 1997 regulated six basic principals in commercial activities by treating all traders equally and protecting consumers' rights. ○ The AFTA tariff has the tax rates of 0% and 5% (compulsory reduced). 	<ul style="list-style-type: none"> ○ The Law of Trade of 2005 regulated more details (basic principles) and foreign traders, business promotion, advertisement, intermediates, logistic service, franchising and establishment of a Trade Association.

Source: Vietnam Laws Online Database, Synthesized by the authors

facturing sector was the leading sector for economic growth of HCMC in the 1990s, which was facilitated by FDI. The industrial sector grew more than 17% annually in 1992–1996. As HCMC had advantageous conditions for foreign investors in terms of (1) industrial infrastructures such as roads, ports, airport facilities and electric supply, (2) early establishment of industrial estates, (3) market friendliness and (4) a wealth of urban services, more than two-thirds of FDI to Vietnam was concentrated in HCMC and the surrounding provinces⁷. The HCMC government promoted the development of an export processing zone (EPZ) and an industrial zone (IZ) to welcome FDI by issuing government decrees in 1991 and 1994. Starting with the establishment of Tan Thuan EPZ in 1993, a total of 3 EPZs and 12 IZs were developed or were under construction by 2002. The total rentable area of these zones is 5,600 ha⁸. Since issuing the Foreign Investment Law of Vietnam in 1987, HCMC has been regarded as the leading place in Vietnam to absorb FDI capital.

The period 1988–1989 is considered an exploitation time of foreign investors with average registered FDI capital only modestly absorbed as 230 million USD per year. However, in the later period from 1990–1999, total registered FDI capital in HCMC impressively increased with total accumulated FDI capital attracted as 13,482 million USD (average annual FDI

capital was 1,348 million USD)⁹. It is obvious that the foreign sector contributed in large part to the rapid economic growth rate of HCMC during the 1990s. The statistical data of HCMC shows that the foreign sector accounted for only 1.3% of the GRP in 1990, but it soared to 11% of the GRP in 1995 and 18.3% of the GRP in 1999. Most foreign enterprises invested in HCMC under the form of joint-venture or 100% foreign capital, and the average growth rate was significantly over 20% annually in 1995–1998. The important role of the foreign sector could also be seen by its contribution as 4.3% of the annual average GRP growth rate for a total of 12.6% overall economic growth per year during 1991–1995¹⁰. Although the Asian financial crisis during 1997–1999 resulted in a slight reduction of FDI and export turnover in HCMC, it did not have a serious impact on the city's economy compared to other cities or countries in Asia. The annual GRP growth rate of HCMC was 9.0% in 1998 and 6.0% in 1999, and has been recovering since 2000.

3.1.2 The period beginning in 2000: Overall modernization of industry with emergence of the private sector

The period beginning in 2000 has witnessed many legal system reforms in Vietnam such as enactment of the new Investment Law, the new Enterprise Law and the new Land Law in 2005 to facilitate the mobilization of many resources

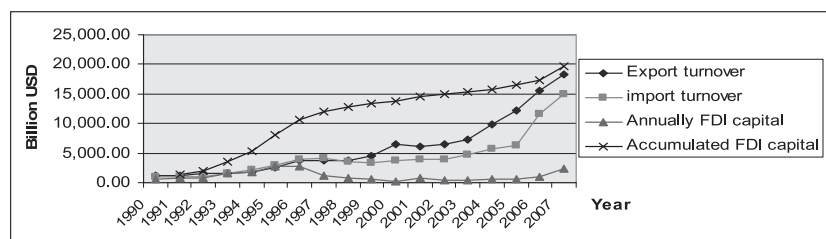


Fig. 4: Distribution of export, import turnover, yearly FDI capital and accumulated FDI capital in HCMC

Source: HCMC Statistical Office; graph created by the authors

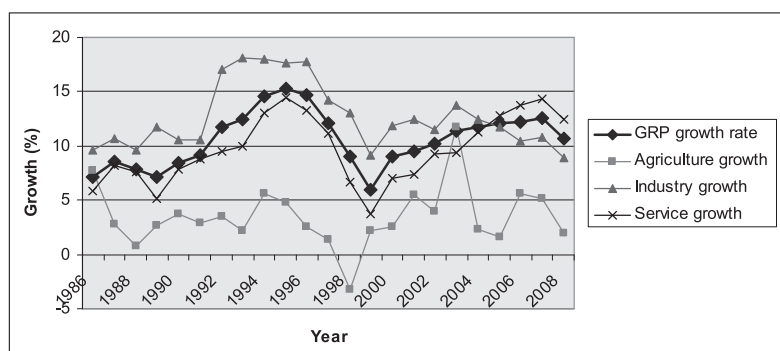


Fig. 5: GRP and economic sector growth rate in HCMC

Source: HCMC Statistical Office; graph created by the authors

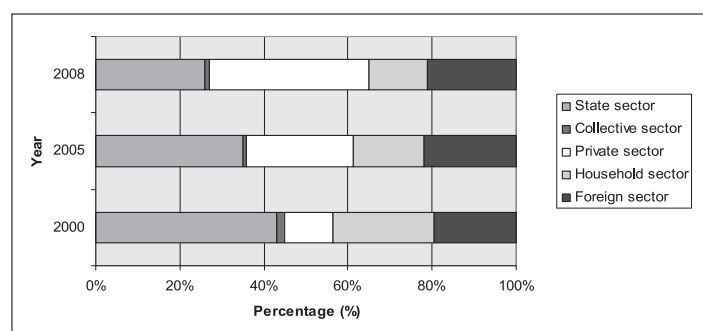


Fig. 6: GRP structure by economic ownership in HCMC

Source: HCMC Statistical Office; graph created by the authors

for development. Therefore, HCMC's economy continuously obtained high economic growth with an average annual GRP growth of 11.3% during 2000–2008. In this period, the trade and service sector became a driving force for economic growth, in addition to the manufacturing sector. Since 2005, the growth rate in the trade and service industry has been greater than that in manufacturing. As new investment in manufacturing has shifted to the surrounding provinces, HCMC is increasingly becoming a center for regional business and consumption.

The significantly greater emergence of the private sector compared with the foreign sector can be seen very obviously during this period. The growth of the private sector in total GRP was very significant, as seen by its average annual growth rate of 28.3%, while the growth of the foreign sector was 12.3% per year during 2001–2008. This has resulted in a shift of ownership structure in GRP value, which is characterized by the rapid increase of the private sector in GRP from 11.5% in 2000 to 38.0% in 2008. In contrast, this figure for the foreign sector increased only slightly from 19.4% and 21.0%, and there was a reduction of the household sector from 24.2% in GRP to 14.0% in GRP. In fact, the growth of the private sector in manufacturing and trade & services was due to a boom of starting businesses in response to the new Enterprise Law in 1999, which made it easier to establish several types of companies. During 2000–2008, the total number of private establishments increased 7.3-fold in the trade and service sector, while the manufacturing sector showed a 6.6-fold increase of establishment. This illustrates the process of formalization and modernization of industry and labor structure in HCMC in terms of GRP structure, resulting in the increased labor productivities.

Economic growth with expansion of FDI and exporting, which creates much more business opportunity, and the

spread of market based economy are also fundamental factors in the expansion of the private sector. Furthermore, the regional accumulation of capital with economic growth in the 1990s was mobilized to support private business. The total mobilized capital in HCMC increased rapidly from 56,204 billion VND in 2000 to 585,339 billion VND in 2008, a 10.4-fold increase. The capital accumulation of HCMC relied on savings deposits (50.3%) and deposits of enterprises (47.6%). Deposits made by foreigners accounted for only 2.2% of the accumulated capital. The role of private commercial banks, therefore, has also gradually been confirmed in the provision of financial service.

3.2 Formation of a Favorable Economic Cycle

The favorable economic cycle experienced by HCMC was formed gradually in the process of economic development that linked the outcomes of each development phase. Under the Doi-Moi policy, HCMC could promote the manufacturing sector by attracting FDI, which resulted in increased exporting and high economic growth. Expansion of HCMC's local markets made the trade and service sector very active. In particular, the emergence of the private sector generated more employment and improved industrial productivity. These changes attracted urban migration to HCMC. The annual social population increase rate in HCMC jumped from 0.68–1.09% in the 1990s to 1.99–2.61% after 2000, resulting in rapid population increase from 5.25 million in 2000 to 6.81 million in 2008. During the same period, the net increase in the labor population was over 1 million persons, and most of them were absorbed by the manufacturing and trade & service sectors. The increasing regional population and improvement in household income expanded regional markets, resulting in growth in trade and services again. The favorable economic cycle in HCMC is depicted in Fig. 7.

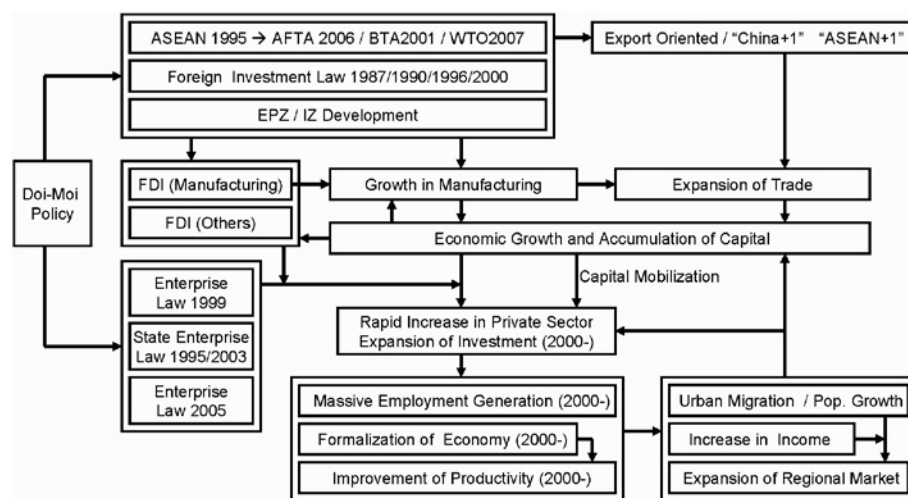


Fig. 7: Economic growth and modernization of industry and the economy

Source: Created by the authors

4. Transformation of Society in HCMC under Globalization

Under the globalization process together with the direct impact of local industrialization, there have obviously been transformations of HCMC society. The transformation of society has been revealed in the form of (1) formalization of society, (2) improvement in income, consumption and expansion of disparity, and (3) urbanization with migration.

4.1 Formalization of Society

4.1.1 Formalizing labor structure

The industrialization and economic growth of HCMC have been generating a lot of job opportunity and promoting formalization of job structure. Based on the statistical yearbooks and the population census of HCMC^{11,12)}, we estimated the recent

trend of labor structure of HCMC by industry, shown as Table 2. The formalization of labor structure in HCMC has occurred as a shift of labors (1) from the unregistered sector (including informal sector) to the formal (registered) sector and (2) from household-based businesses to private sector businesses.

During 2000 and 2008, the share of labor in the formal sector increased from 26.6% to 49.4%, while that in the unregistered sector decreased from 52.3% to 27.0%. This is because growth in manufacturing and trade & service as the formal sector has absorbed the increasing labor force. The emerging private sector since 2000 has contributed to the formalization of job structure with the shifting of labor from household businesses. For the industrial sector (mining, manufacturing, electricity and water supply), the share of labor in the private sector increased from 24.0% to 40.0%, while that in household businesses declined from 26.1% and 16.1% during the

Table 2: The transformation of the labor structure of HCMC

Industry		2000	2005	2008	2000	2005	2008
		(1,000 persons)			Proportion (%)		
Agriculture *1 (a)		110.2	83.2	79.0	4.1	2.6	2.3
Formal Sector *3	Sub-total	718.5	1409.8	1732.3	26.6	43.9	49.4
	Industry	500.5	846.6	989.5	18.5	26.3	28.2
	Construction	77.2	171.7	186.1	2.9	5.3	5.3
	Trade & other services	79.1	318.2	476.7	2.9	9.9	13.6
(b)	Govt. service *2	61.7	73.3	80.0	2.3	2.3	2.3
Registered household business (c)		460.9	676.4	748.5	17.1	21.0	21.3
Unregistered sector *4		1413.4	1044.6	947.2	52.3	32.5	27.0
Total working laborers *5 (d)		2,703.0	3,214.0	3,507.0	100.0	100.0	100.0

*1: Estimated number: one-third of agriculture population

*3: Excluding registered household business

*5: Estimated number based on 2004 census

*2: Estimated number by HCMC govt.

*4: Unregistered sector = d - (a+b+c)

Sources: HCMC statistical yearbooks and HCMC 2004 population census

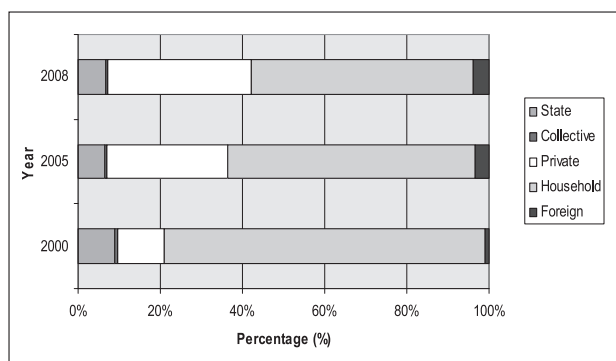


Fig. 8: Labor structure in the trade and service sector by ownership

Source: HCMC statistical yearbooks ; graphs created by the authors

same period. For the trade and other service sector, the share of labor in household businesses also declined from 78.2% to 53.9% with labor shifting to the private sector. Because it could be easier for individuals or households to start small business in trade and other service sector, the percentage of laborers working in household businesses remains a high proportion of the total laborers in this sector.

This quick formalization was made due to not only modernization of HCMC's industries but also the massive inflow of younger laborers into HCMC. Since the share of unregistered workers was 27.2% in 2008, however, formalization is still in progress.

4.1.2 Improving educational level

Educational level can be one of the indicators to measure human development and formalization in society. Based on the result of mid-term population census in HCMC in October 2004, the distribution of educational level of the whole HCMC population by age groups is shown in Fig. 10. Under the socialistic system, the HCMC government has provided basic education for people age 45–49 or younger, resulting in higher numbers of people obtaining a secondary education. The pro-

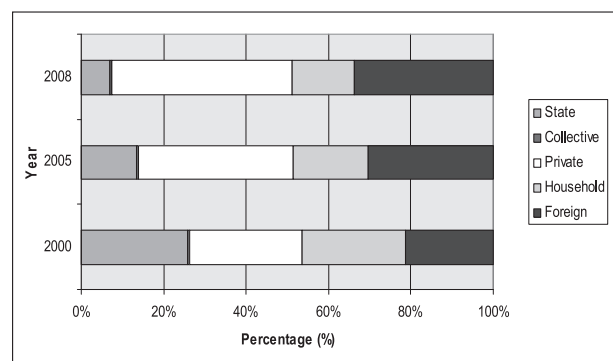


Fig. 9: Labor structure in the manufacturing sector by ownership

portion of people who stopped school after the primary school level in the total HCMC population declined from 23.5% for age 45–49 to 10.4% for age 20–24. This illustrates that HCMC achieved a remarkable result from the compulsory education program for junior high school level by reducing the proportion of persons leaving school after completing primary school.

The demand for enhancing human resources from the labor market rose continually under the industrialization and modernization of the economy. Consequently, the tendency of positive change in the educational level structure in HCMC is closely allied to the process of globalization. The education level of people age 30–34 or younger continues to improve, and it is especially noticeable in the number of people age 20–24 obtaining tertiary education and higher secondary education. Obtaining a higher education will help these people to get better jobs under the modernization of industry.

There is an intersection of the line indicating senior high school level and that indicating junior high school level in the 24–25 age group that is regarded as a noteworthy milestone indicating a shift from completion of junior high school to completion of high school being true of the dominant proportion of the population. Such achievements, in fact, rely on

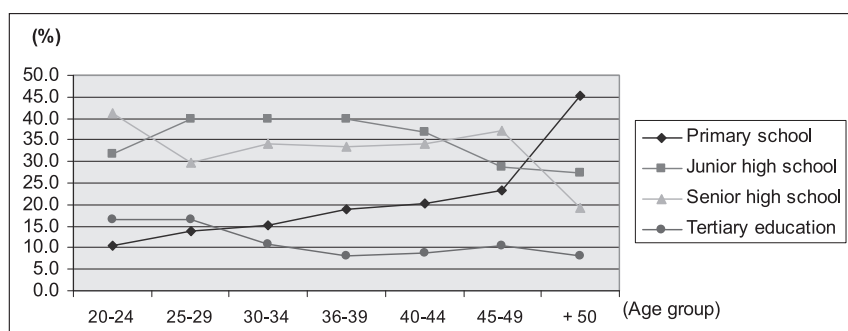


Fig 10. Distribution of education level of the HCMC population by age group

Source: HCMC Mid-term Population Census 2004; graph created by the authors

an appropriate policy for education development of the city. HCMC is ranked as one of the first cities in the whole country to make primary school completion compulsory in 1995 and junior high school completion compulsory in 2002³⁾. In 2007, HCMC had 457 primary schools, 243 junior high schools and 118 senior high schools. The statistical data in HCMC shows that the number of pupils of junior and senior high school increased by 0.9% per year in 1999–2006, while the number of teachers increased by 2.6% per year; the number of schools increased 1.2% per year and the budget for education increased by 24.7% per year as well. Therefore, the facilities of education have been improved remarkably, helping to reduce the number of pupils per class and enhance the quality of teaching. All of these efforts have impacted the shift in educational structure in HCMC in a positive way. This tendency is similar among the Asian NIES¹³⁾. At present, the HCMC government plans to set the compulsory education level at senior high school in 2010.

4.2 Improvement in Income and Consumption and Expansion of Disparity

4.2.1 Improvement in income and expansion of disparity

Many developing countries have experienced expanded economic disparity in the process of economic development, because it is easier for advantaged social groups, in terms of higher education, social network, resources to be mobilized, to seize opportunities. According to the survey data of the HCMC Statistical Bureau, the average monthly income per capita in HCMC changed from 547,000 VND in 1995 to 2,263,000 VND in 2008, a four-fold increase in 13 years. The income data is also divided by the quintiles of income groups, and each group accounted for 20% of the total households

in HCMC from the bottom to the top quintile. The 1st group has the lowest monthly average income per capita, and the 5th group is regarded as the highest income household group. Monthly average income per capita of the 1st group (bottom quintile) changed from 219,000 VND in 1995 to 839,000 VND in 2008, a 3.8-fold increase during 1995–2008, while the 5th group (top quintile) changed from 1.19 million VND in 1995 to 5.29 million VND in 2008, a 4.4-fold increase.

As Table 3 shows, the disparity ratio of income between group 5 (top quintile) and group 1 (bottom quintile) was gradually widened over time from 5.46 times in 1995 to 5.58 times in 1999, 6.19 times in 2004 and 6.37 times in 2008. However, the disparity level in HCMC is not so high in comparison with that in Asian Newly Industrial Economies (Asian NIES) such as Malaysia, Thailand and China. Moreover, the tendency in income increase ratio during 1995–2008 among groups 1–4 is quite similar. This is due to the government's socio-economic policy as a socialistic country, as indicated by the equitable educational policy and the poverty alleviation policy described in the next section.

4.2.2 Poverty alleviation

In 1992, the HCMC government defined the poverty line as a yearly income per capita of less than 3 million VND in urban areas and 2.5 million VND in suburban areas. The share of the households below the poverty line accounted for 20% in 1992. In 2004, the HCMC government established a new poverty line as a yearly average income per capita of less than 6 million VND, which was double the previous amount. Based on the new poverty line, the number of poor households reached 7.5% in 2005. Assuming the principal definition for both of the poverty lines was the same, but taking the inflation rate during

Table 3: Disparity between average monthly income per capita by income group

	Average capita income (1,000 VND/month)	Of which (1,000 VND/month)					Disparity between Group 5/ Group 1 (times)
		Group 1 (20%)	Group 2 (20%)	Group 3 (20%)	Group 4 (20%)	Group 5 (20%)	
1995	547	219	327	424	569	1,196	5.46
1999	891	348	528	688	948	1,942	5.58
2002	905	316	525	722	1,009	1,952	6.17
2004	1,165	431	635	870	1,219	2,668	6.19
2006	1,465	552	826	1,081	1,490	3,448	6.24
2008	2,263	839	1,276	1,673	2,232	5,298	6.37
Change in income, 1995–2008	4.1-fold	3.8-fold	3.9-fold	3.9-fold	3.9-fold	4.4-fold	—

Source: Statistical Office in HCMC, from 1995 to 2008

the same period into account, the share of households under the poverty line declined from 20.0% to 7.5% in this time. This is because of not only real income increases under economic growth but also implementation of a set of poverty reduction policies of the HCMC government.

HCMC is regarded as a pioneer in Vietnam in the implementation of a poverty reduction program. From 1992 to 2004, HCMC provided direct support for 100,000 poor households to be able to get out of poverty¹⁴). The HCMC government strongly supports the urban poor through diversified measures. First, the government improved infrastructures of some of the poor villages or wards in and around the city. In the period of 1992–2003, over 20 villages received benefits from this program. Second, the HCMC government provided job and economic support for poor households by offering micro credits with a very low interest rate, facilitating some small production projects for unskilled labors and offering re-training skills and training without fees, giving priority to recruiting for overseas working programs. The 0.7% interest rate per year

was also applied in cases of borrowing capital for agriculture production. Third, social welfare and education programs were made available to poor households, such as provision of social insurance and exemption of schooling fees. Such programs and projects for the poor have had a strong impact on reducing the proportion of poor households in HCMC. At present, a new poverty line of 12 million VND per year is projected for the third phase of the poverty reduction program for 2009–2012.

4.2.3 Improvement in household expenditure and consumption trends

Household expenditures and consumption in HCMC changed along with the improvement of household income. Based on the survey of living standard of the HCMC Statistical Bureau, the average monthly expenditure per capita increased from 400,420 VND in 1995 to 1,739,530 VND in 2008. In particular, the rapid expansion of household income and expenditure during 2006–2008 shows the trend of HCMC

Table 4: Structure of expenditures of the HCMC population by years

	Structure of expenditure items (%)					
	1995	1999	2002	2004	2006	2008
Expenses for the whole HCMC population	100.0	100.0	100.0	100.0	100	100
1. Food & beverages	63.5	51.1	50.8	49.8	46.2	46.8
2. Clothing	5.0	4.0	3.6	3.6	4.0	3.7
3. Accommodation	6.1	6.8	6.8	6.3	6.6	6.2
4. Family equipment	4.3	7.5	6.7	7.1	9.0	7.0
5. Health and fitness	3.7	5.2	6.5	7.0	5.6	5.2
6. Transportation and post office	6.1	11.6	11.7	12.0	13.9	17.6
7. Education	4.8	6.0	6.1	6.5	6.2	6.1
8. Culture, sports, entertainment	3.4	3.1	2.9	2.6	3.4	4.1
9. Others	3.1	4.8	4.9	5.1	5.2	3.4
Average monthly expenditure per capita (1,000 VND)	400.42	595.90	665.98	802.17	1,025.04	1,739.53

Source: Statistical Office in HCMC, from 1995 to 2008

Table 5: Proportion of households having amenities

	Units	1995	1999	2002	2004	2006	2008
1. Television sets	% HH	84.10	88.20	89.10	95.80	96.00	99.00
2. Video sets	% HH	55.80	60.10	63.70	64.30	62.33	55.33
3. Cassette radios	% HH	74.00	81.10	36.10	26.50	20.33	8.00
4. Refrigerators	% HH	38.10	42.00	50.90	61.20	69.33	78.33
5. Air-conditioners	% HH	5.50	7.30	10.30	14.30	17.00	21.67
6. Washing machines	% HH	12.70	16.20	22.20	27.00	44.67	52.00
7. Telephones	% HH	14.60	32.30	43.30	52.60	78.00	92.67
8. Motorcycle	% HH	71.90	75.70	73.80	79.60	84.33	91.67
9. Cars	Number of cars per 1,000 people	—	24.5	27.6	36.4	45.7	54.0

Source: Statistical Office in HCMC, VN, from 1995 to 2008

as a consumption society. The proportion of expenditure for food and beverage declined from 63.5% in 1995 to 46.8% in 2008, while the proportion of expenditure for transportation and communication, family equipment, health and welfare, and education increased during the same period. The increase in expenditure for transportation and communication was especially noticeable, from 6.1% to 17.6%. It is notable that the proportion of expenditure for education did not increase so much, even though the level of education improved, because the education policy of the HCMC government was to contain the cost of obtaining an education. These are positive trends in the household expenditure structure.

Expansion of consumption capability increased the ownership ratios of goods in HCMC, such as television sets (99.0%), motorcycles (91.7%), telephones (92.7%), refrigerators (78.3%) and washing machines (52.0%). These goods improve the quality of life of the people, in terms of enhancing home entertainment, providing access to information, raising mobility and communication, and reducing the workload for housekeeping respectively. However, only a limited number of households could purchase air-conditioners or cars, which are recognized as typical goods for new members of the middle

class, indicating that HCMC is at the early stage of becoming a consumption society.

4.3 Urbanization with Migration

The urbanization of HCMC has been intrinsically related to the process of industrialization since 1990. During 1986–2008, the population of HCMC increased from 3.78 million to 6.81 million persons. The current population is almost double that of 1986, the first year of the Doi-Moi policy. In coping with increasing urban land demand, the HCMC government decided to expand the urban boundary and established 5 new districts (Districts 2, 7, 9, 12 and Thu Duc) in 1997 and another new district (Binh Tan district) in 2003. Due to the establishment of the 6 new urban districts, the total urban area in HCMC increased from 142.15 km² to 494.00 km², which resulted in rapid suburbanization. The suburb became a frontier of industrialization and housing for factory workers, migrants and new members of the middle class. Many industrial estates and export processing zones were established at that time. A total of 15 industrial parks with 5,600 ha were established in suburban areas including the new districts during 1991–2004.

Under the rapid economic growth, HCMC has attracted

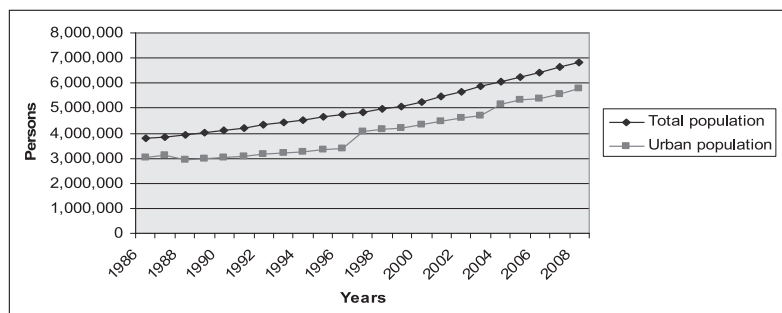


Fig. 11: Population trends by total HCMC population and urban population

Source: HCMC Statistical data and created by the authors

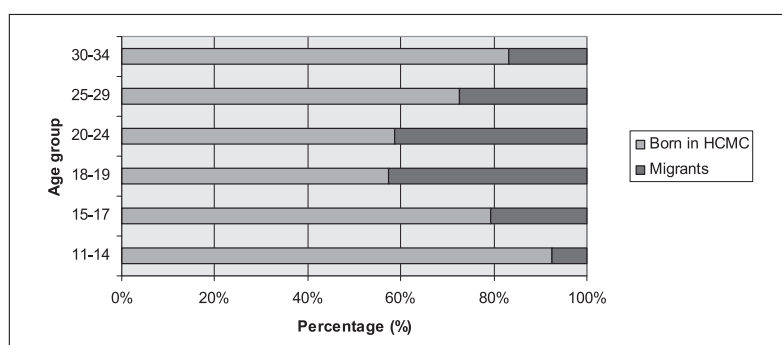


Figure 12: The proportion of migrants by age group of HCMC population in 2004

Source: HCMC Statistical data; graph created by the authors

many migrants from other provinces, attracted by the job opportunities, especially in industry and construction. The population census data also indicate that the population growth by migration has been dominant since the end of 2000. In the mid-term population census (1999–2004), about 196,000 migrants per year were coming to HCMC. The majority of migrants lives in the new districts accounting for 43.1%; in the surrounding central districts accounting for 30.5%; whereas only 15.4% of migrants lived in the inner city and 11.0% lived in the outskirt areas (rural districts). The urban population rate of HCMC increased from 71.2% in 1995 to 85.3% in 2008. The proportion of non-agriculture population also rapidly rose from 84.3% in 1986 to 96.5% in 2008.

The migrants from other provinces coming to HCMC accounted for 28.9% of the total HCMC population, or nearly 1.8 million persons, from nearly 63 cities and provinces in Vietnam. About 36.9% of the migrants came from the Mekong Delta, 14.8% came from the Red River provinces, 14.8% came from the Central North provinces and 13.9% came from the South Eastern provinces¹¹⁾. The migrants mostly were quite young with high proportion of working-age individuals. Over 40% of the migrants were 18–24 years old, and 33.8% of them were 15–29. Females accounted for 55% of the migrant population. Migrants also included some students from other provinces coming to study in the universities in HCMC, but mostly they were laborers from other provinces recruited by industrial companies or under the form of free migrants.

There are two types of migrants to HCMC based on the duration of time they were registered with the authorities in 2004. The first type was long-term registered migrants whose registration periods averaged 6 month per time. They accounted for 50% of the total migrants in 2004 and were mainly engaged in the private sector or the manufacturing sector. The second type was short-term registered migrants whose registration periods were 1–3 months per time. They often engaged in seasonal work such as unregistered jobs or informal situations. The nature of urbanization is that a certain level of informality and temporality exists.

5. Conclusion

5.1 Major Findings

We examined the process and outcomes of industrialization and transformation of society in HCMC under the Doi-Moi policy. We could see the positive achievement from indus-

trialization in terms of economic growth, modernization and formalization of industries. A favorable economic cycle formed gradually in the process of economic development of HCMC that linked the outcomes of all of the development phases. HCMC could promote the manufacturing sector by attracting FDI, resulting in increased exporting and high economic growth. The expansion of HCMC's local markets made the trade and service sectors very active. In particular, the emergence of the private sector generated more employment and improved industrial productivity. The massive job opportunity attracted urban migration to HCMC. The increasing regional population and improvement in household income expanded regional markets, resulting in growth in trade and services again. These are due to a reciprocal impact process between the macro legal framework reform conducted by the central government and the development policies mapped out by the HCMC government, utilizing the city's advantageous positions in terms of the infrastructure, urban services and the size of regional markets.

Under the globalization process together with local industrialization, HCMC's society has obviously gone through a transformation. The transformation of society has been revealed under the form of (1) formalization of society, (2) improvement in income, consumption and expansion of disparity, and (3) urbanization with migration.

The formalization of society in HCMC was facilitated by the changes in labor structure that happened as a result of shifting laborers from unregistered sectors (including informal sectors) to formal sectors and from household-based businesses to private enterprises. Improvement in education in HCMC also contributed to these trends. This transformation brought increased income and expansion of consumption capability, which increased the ownership of television sets, motorcycles, telephones, refrigerators and washing machines. These goods improve the quality of life of the people, in terms of enhancing home entertainment and access to information, increasing mobility and communication, and reducing the housekeeping load. HCMC is in the early stage of becoming a consumption society. However, the economic disparity of HCMC's population is expanding under the economic growth, although its level is not so high in comparison with other Asian Newly Industrial Economies due to the HCMC government's social development policy such as poverty alleviation and educational upgrading.

Urbanization of HCMC has been intrinsically related to the process of industrialization since 1990. HCMC has attracted

many young migrants with of its wealth of job opportunities. Most migrants settle in the suburbs of HCMC, which have thus become the frontier of industrialization and housing. There are two types of migrants, namely, long-term registered migrants and short-term registered migrants. The former mainly engaged in jobs in the private sector or the manufacturing sector, while the latter often engage in seasonal work at unregistered jobs or in the informal sector. Urbanization usually brings a kind of informality and temporality to some sectors of the job market.

5.2 Policy Implications

For the economic cycle of HCMC to be developed in a positive way, the economy and society will have to change continually. The local government will need to implement policy changes in a number of areas.

First, the educational level has been closely linked with the process of formalization of society as well as the changes in labor structure. Hence, the policy of priority investment in education should be continuously upgraded by increasing its proportion in the city's budget, together with implementation of the contracting-out policy to spur the private sector to open more high-quality private schools. In addition, the demand for workers with a high level of education has also been increased in the process of integrating HCMC's economy with the world economy, especially after Vietnam joined the WTO in 2007. The proportion of laborers obtaining the tertiary level of education should, therefore, be increased in the next phase of the government's program.

Second, the socio-economic structure of HCMC has been formalizing rapidly, and it has been brought to this point by younger citizens, who have a higher level of education. However, many laborers still engage in informal economies, and many of the informal laborers suffer from lower and unstable income and lower social security benefits. This is one of the reasons why the income disparity in HCMC is widening. The informal economies are lagging behind the national economic growth. On the other hand, the informal economy provides job opportunities for relatively lower educated migrants and non-migrants. The sector also provides many cheaper goods and services for both the general public and business sectors. Thus, the role of government is very important in terms of creating business environments for informal economies and empowering informal laborers by providing micro credits and skill and business training. The government should continue to fund the existing poverty reduction programs and extend

its target group to low income migrant households who are excluded from the current social security services.

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POVERTY AND INEQUALITY IN GLOBALIZING ASIA

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Abstract

Globalization, a growing integration of economies and societies around the world is a complex process that is variously affecting different regions, countries and their populations. Widespread poverty and excessive inequality remain the key challenges to the legitimacy of the globalization that has been under way during the last two decades. It is for this reason, that the World Summit for Social Development in 1995 called upon countries to take immediate actions to implement national anti-poverty plans to eradicate extreme poverty. This was re-emphasized by the United Nations in the year 2000 with the introduction of a time-bound and measurable framework of core Millennium Development Goals (MDGs). This paper therefore examines the recent trends and gives a selective review of poverty and inequality in the Asia and Pacific region, where 950 million people, two thirds of the world's poor were living below the international poverty line of \$1.25 a day in 2008. Following a brief discussion on current approaches to understanding poverty, the relevant trends of the multiple dimensions of poverty and inequality in the Asia and Pacific region is identified and discussed, with special reference to the experience in Sri Lanka. Finally, the paper concludes by giving some key findings, and policy implications based on the analysis.

KEY WORDS : Asia, Sri Lanka, Globalization, Economic Growth, Income Poverty, Human Poverty, Inequality

1. Introduction

Global economic integration has been going on for a long time. In that sense globalization is nothing new for the world. As Dollar argues, what is new in this most recent wave of globalization, starting around 1980 is the way in which developing countries are integrating with rich countries. As in previous waves of integration, this change is driven partly by technological advances in transport and communications, and partly by deliberate policy changes¹.

The most contentious issue of globalization is its effects on poor countries and poor people. Many people argue that globalization is necessary and in the long run beneficial and providing good opportunities, especially for developing countries². To others, there is a much deeper concern about the related challenges and possible risks associated with the globalization process. They claim that global economic integration is leading to rising global inequality, benefiting the rich proportionally more than the poor³.

The main objective of this paper is therefore to examine the poverty and inequality in Asia, over the long term and during the recent wave of globalization that began during the 1980s. It is structured as follows: Section 2 discusses the

current approaches in understanding poverty. Then, section 3 analyses and presents the trends in poverty and inequality in Asia. The trends that are focused on in this section are that economic growth, extreme poverty (for those who are living on less than \$1.25 a day), some indicators of human poverty (longevity, adult literacy rate, children underweight), and inequality. Section 4 draws a link between the heightened integration and the accelerated growth and poverty reduction with special reference to the experience in Sri Lanka, one of the first South Asian Countries to open up to the global economy and today the region's most open economy. Finally, section 5 concludes by giving some remarks with key findings, and policy implications based on the analysis presented.

Here, Asia refers to the Asia and Pacific region included 58 regional members and associate members of the United Nations Economic and Social Commission for the Asia and the Pacific (UN-ESCAP). Time series data are presented according to the geographic sub regions classified by the UN-ESCAP for monitoring the progress of achieving the MDGs in Asia and the Pacific region, with the exception of developed countries. The classification by income groups follows the definition of the World Bank⁴.

Most of the data used for the analysis are gathered from the databases that have been compiled by the designated

international agencies for the respective MDG indicators. The web searches were performed along with a review of the literature available to gather the relevant information.

2. Defining and Measuring Poverty

The poverty reduction approach in the world has evolved over the past 50 years in response to a deepening understanding of the complexity of development. In the 1950s and 1960s, a large investment in physical capital and infrastructure became the primary means of development and poverty reduction. In the 1970s, many views that physical capital alone was not enough and that health and education were at least as important for successful reduction of poverty in the world. The 1980s saw another shift of poverty thinking with emphasis on improving economic management and allowing greater role for market forces. The majority of the developing world shifted from an inward-focused economic strategy to a more outward oriented one. In the 1990s, governance and institutions moved toward a center stage of poverty reduction strategies⁵⁾.

New conceptualizations of poverty also emerged which recognized that poverty is not just about income or expenditure levels, but is multifaced, covering a wide range of aspects, such as, prospects for earning a living, deprivation and exclusion, basic needs, social aspects, psychological aspects, etc⁶⁾. The World Bank's definition on poverty nicely recognized this multifaced nature of poverty;

"..... Poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not having access to school and not knowing how to read. Poverty is not having a job, is fear for the future, living one day at a time. Poverty is losing a child to illness brought about by unclean water. Poverty is powerlessness, lack of representation and freedom ..."

Poverty has many faces, changing from place to place and across time, and has been described in many ways. Most often, poverty is a situation people want to escape. So poverty is a call to action – for the poor and the wealthy alike – a call to change the world so that many more may have enough to eat, adequate shelter, access to education and health, protection from violence, and a voice in what happens in their communities"⁷⁾

At the same time, new approaches to the assessment of

poverty emphasise (a) vulnerability – a concept referring to negative outcomes on the well-being of individuals, households or communities from environmental changes; (b) asset ownership – individuals, households and communities' ability to resist negative impacts relates to their ability to mobilize assets in the face of hardships; (c) livelihood – comprises the capabilities, assets (both natural and social) and activities required for means of living⁸⁾.

Based on these new paradigm shifts and in the light of changes in global contexts, the World Bank in 2001 proposed a new strategy for attacking poverty in three ways, such as, promoting opportunity, facilitating empowerment, and enhancing security⁹⁾.

3. Poverty Trends in the ESCAP Region

This section analyses and presents the major trends in poverty and inequality in the Asia and Pacific region, especially focusing on the economic growth, extreme poverty (living on less than \$1.25 a day), some indicators of human poverty (longevity, adult literacy rate, children underweight), and inequality.

3.1 Economic Growth in the Asia and Pacific region

According to the Statistical Year Book for the Asia and the Pacific (2008), the developing regions in the world have benefited from accelerated economic growth of the globalization. Among them, Asia and the Pacific region has been one of the fastest growing regions in the world. In 2007, the GDP growth of the Asia and Pacific region was 5.8 per cent, which was second only to Africa at 6.1 per cent. The data further reveals that the Asia and Pacific region is now one of the world's most important sources of economic output. In 2007, it was responsible for 27.6 per cent of global output, 1.3 percentage points higher than in 1990¹⁰⁾.

Within Asia and the Pacific, the best performers have been the middle-income and low-income countries, rather than the high-income countries. In 2001, the growth rate of the middle-income countries was 4.9 per cent, but in 2007 they had reached a remarkable 9.1 per cent. Low-income countries are also progressing steadily, though at a slower pace, with comparison to the middle-income countries. The high-income countries in the region have been growing more slowly. In most years since 1990, their growth rate has been between 2 and 4 per cent.

Table 1 The Gross Domestic Products (GDP) in Selected Countries of the Asia and Pacific Region, 1990–2007

	Gross Domestic Products (GDP) Million US\$ (1990)					Average Annual GDP Percent for Annum			
	1990	1995	2000	2005	2007	90–95	95–00	00–05	2007
East and North-East Asia	3,782,576	4,476,646	5,113,502	6,120,394	6,779,140	3.4	2.7	3.7	5.3
China	404,494	721,274	1,090,368	1,719,444	2,128,077	12.3	8.6	9.5	11.4
DPR Korea	14,702	12,005	11,538	13,077	13,144	–4.0	–0.8	2.5	1.6
Hong Kong, China	76,890	99,151	112,915	138,307	157,226	5.2	2.6	4.1	6.5
Japan	3,018,270	3,254,784	3,417,383	3,645,896	3,812,499	1.5	1.0	1.3	2.1
Macao, China	2,990	3,978	3,893	6,910	10,296	5.9	–0.4	12.2	27.3
Mongolia	1,454	1,260	1,448	1,983	2,366	–2.8	2.8	6.5	9.9
Republic of Korea	263,776	384,193	475,957	594,778	655,531	7.8	4.4	4.6	5.0
South-East Asia	355,519	513,926	582,615	742,210	836,732	7.6	2.5	5.0	6.3
Brunei Darussalam	3,441	3,733	4,241	4,699	4,960	1.6	2.6	2.1	0.4
Cambodia	1,404	1,920	2,711	4,237	5,172	6.5	7.1	9.3	10.2
Indonesia	125,720	183,279	190,071	239,450	268,602	7.8	0.7	4.7	6.3
Lao PDR	866	1,181	1,593	2,164	2,531	6.4	6.2	6.3	8.0
Malaysia	45,716	71,878	90,829	114,492	128,790	9.5	4.8	4.7	6.3
Myanmar	5,179	6,878	10,244	18,779	22,320	5.8	8.3	12.9	5.5
Philippines	44,312	49,325	59,822	74,427	84,235	2.2	3.9	4.5	7.3
Singapore	36,901	56,791	77,443	95,275	111,011	9.0	6.4	4.2	7.7
Thailand	85,361	129,105	132,031	169,191	186,284	8.6	0.4	5.1	4.8
Timor-leste	146	237	196	205	231	10.2	–3.7	0.9	16.2
Vietnam	6,472	9,600	13,433	19,290	22,595	8.2	7.0	7.5	8.3
South and South-West Asia	671,852	834,192	1,057,638	1,420,835	1,645,005	4.4	4.9	6.1	7.4
Afghanistan	3,622	3,236	2,713	6,793	8,202	–2.2	–3.5	20.1	12.4
Bangladesh	30,435	37,852	48,793	63,566	72,193	4.5	5.2	5.4	6.5
Bhutan	279	336	466	672	893	3.8	6.8	7.6	22.4
India	326,795	420,046	556,748	779,245	926,270	5.1	5.8	7.0	8.7
Iran (Islamic Rep.)	90,370	108,724	132,594	172,195	191,733	3.8	4.0	5.4	5.8
Maldives	215	298	445	563	750	6.8	8.3	4.8	7.7
Nepal	4,097	5,275	6,676	7,710	8,100	5.2	4.8	2.9	2.5
Pakistan	57,159	71,252	81,353	108,825	122,716	4.5	2.7	6.0	6.0
Sri Lanka	8,204	10,700	13,696	16,647	19,163	5.5	5.1	4.0	6.8
Turkey	150,676	176,473	214,154	264,618	294,984	3.2	3.9	4.3	5.1
North and Central Asia	638,331	393,718	430,701	588,505	684,874	–9.2	1.8	6.4	8.4
Armenia	2,157	1,140	1,464	2,608	3,285	–12.0	5.1	12.2	11.1
Azerbaijan	6,515	2,728	3,835	7,214	12,130	–16.0	7.0	13.5	25.1
Georgia	8,532	2,411	3,180	4,548	5,593	–22.3	5.7	7.4	12.4
Kazakhstan	29,659	18,207	20,594	33,730	40,541	–9.3	2.5	10.4	8.7
Kyrgyzstan	1,111	563	740	891	994	–12.7	5.6	3.8	8.2
Russian Federation	569,709	353,709	382,917	515,825	594,967	–9.1	1.6	6.1	8.1
Tajikistan	2,869	1,091	1,091	1,733	1,970	–17.6	0.0	9.7	7.8
Turkmenistan	3,069	1,939	2,413	2,974	3,518	–8.8	4.5	4.3	8.5
Uzbekistan	14,710	11,931	14,469	18,983	21,876	–4.1	3.9	5.6	7.4
Pacific	374,150	439,801	526,962	621,632	664,458	3.3	3.7	3.4	3.8
Australia	319,150	374,924	453,884	535,138	573,823	3.3	3.9	3.3	3.9
American Samoa									
Cook Island	59	69	78	94	96	3.2	2.5	4.0	0.4
Fiji	1,320	1,500	1,666	1,878	1,870	2.6	2.1	2.4	–3.9
French Polynesia	2,930	3,145	3,692	4,217	4,459	1.4	3.3	2.7	3.0
Guam									
Kiribati	26	29	45	48	46	2.7	9.0	1.1	2.0
Marshall Islands	69	71	58	69	71	0.6	–3.9	3.4	2.0
Micronesia (F.S.)	145	177	165	169	168	4.0	–1.4	0.5	0.1
Nauru	28	20	17	17	17	–6.6	–3.7	0.3	0.2
New Caledonia	2,529	2,914	2,978	3,057	3,090	2.9	0.4	0.5	0.5
New Zealand	43,915	51,174	58,366	70,350	73,591	3.1	2.7	3.8	3.0
Niue									
Northern Mariana Is.									
Palau	77	72	79	84	138	–1.2	1.8	1.3	1.8
Papua New Guinea	3,286	4,961	5,149	5,647	6,153	8.6	0.7	1.9	6.2
Samoa	112	118	144	178	191	1.1	4.1	4.3	4.7
Solomon Islands	208	264	231	249	281	4.9	–2.6	1.5	6.3
Tonga	135	161	177	188	187	3.7	1.8	1.3	–3.5
Tuvalu	10	11	12	17	17	3.0	1.9	6.4	3.0
Vanuatu	153	191	223	233	258	4.5	3.1	1.0	4.7
World Regions									
Asia and the Pacific	5,822,428	6,658,283	7,711,420	9,493,577	10,610,208	2.7	3.0	4.2	5.8
Africa	495,198	523,199	627,279	808,217	906,043	1.1	3.7	5.2	6.1
Europe	7,925,781	8,352,485	9,605,595	10,464,264	11,083,499	1.1	2.8	1.7	2.8
Latin America and Carib.	1,196,941	1,405,877	1,635,481	1,861,230	2,061,522	3.3	3.1	2.6	5.2
North America	6,342,977	7,144,022	8,749,394	9,821,583	10,327,841	2.4	4.1	2.3	2.2
Other Countries/areas	303,184	361,663	442,068	543,319	606,305	3.6	4.1	4.2	5.2
World	22,148,902	24,678,950	29,080,803	33,354,836	35,997,455	2.2	3.3	2.8	3.8

Source: ESCAP (2008) <<http://www.unescap.org/stat/data/syb2008>> (online database, accessed on 12th October 2009)>

As Table 1 shows the fastest growth in the Asia and Pacific region has been in North and Central Asia, because of the high commodity prices and heavy public and private investment¹¹⁾. The economic growth in this sub region grew on average by 8.4 per cent, in which most rapid growth can be found in Azerbaijan at 25.1 per cent in 2007.

Other sub regions show some mixed performances. In 2007, South and South-West Asia achieved a record 7.4 per cent GDP growth, though they ranged from Bhutan with a historically high rate of 22.4 per cent to Nepal where growth was only 2.5 per cent. Southeast Asia also had large differences between the best and worst performers – from 16.2 per cent in Timor-Leste to 0.4 per cent in Brunei Darussalam. Similarly, in East and North-East Asia growth ranged from 27.3 per cent in Macao, China to 1.6 per cent in the Democratic People's Republic of Korea.

Commentary on economic growth in Asia and the Pacific would be incomplete without a separate focus on the region's two giant countries. Since, China's economic reform and opening to the outside world in 1978, its ratio of trade to national income has more than doubled. China alone contributes 20.1 per cent of the region's GDP, and in 10 of the past 18 years has recorded a double-digit growth rate. Not only China, India also with 8.9 per cent of regional GDP has also had rapid growth particularly in recent years.

Additional insight into the shift in growth patterns is gained by looking at the trends in GDP growth per capita. In Asia and the Pacific, the 2007 average of the GDP growth per capita was \$2,603. In global terms this is still a relatively low figure, while the growth rate has been more rapid than in other global regions¹²⁾.

It is revealed that growth in per capita GDP is strongly influenced by population growth. In 2007, Africa's GDP growth rate at 6.1 per cent was higher than the Asia-Pacific rate of 5.8 per cent and the 5.2 per cent in Latin America and the Caribbean. But, as a result of its high population growth rate, Africa had the lowest per capita GDP growth rate of these three global regions¹³⁾.

As the Statistical Year Book for the Asia and Pacific region (2008) points out, a high proportion of GDP in the region results from mostly domestic investment. The proportion dropped several percentage points after 1997–1998 but has since returned to near pre-crisis levels. Indeed the baseline investment rates were so high that between 1990 and 2007 only the least developed countries and SAARC members managed to increase their share of domestic investment in GDP¹⁴⁾.

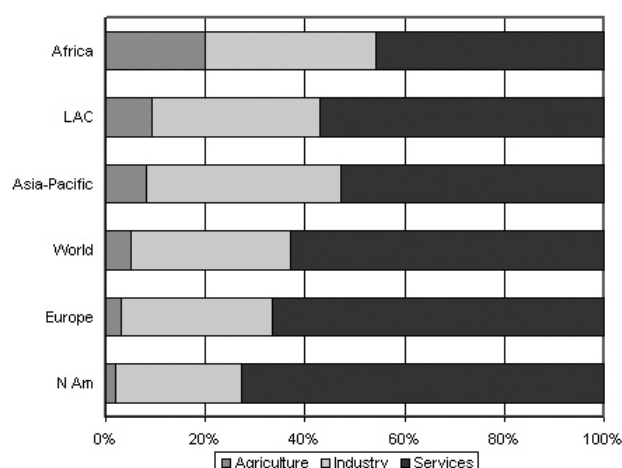


Figure 1 Value Added by Sector, the World Regions, 2007
Source: ESCAP (2008)

Value added by sector is one of the better indicators to see which parts of the economy are contributing to economic growth. During 1990–2007 for Asia and the Pacific as a whole, the share of agriculture in value added declined from 9.5 to 8.1 percent, and industry grew from 37.6 to 39 per cent, while services remained stable at 52.9 per cent (see Figure 1).

Except in the least developed countries of the region, industry has generally grown faster than agriculture. Many countries became a major exporter of manufactures and services, and compete directly with products made in the industrial countries, which in value-added terms has made this region one of the world's most industrialized regions.

When assessing the significance of different sectors, however, it is important to look beyond value added and consider their contribution to employment. In the Asia and Pacific region, agriculture may have only a small share of value added, but it still employs the largest share of people and in many developing countries is critical for food security¹⁵⁾.

3.2 Extreme Poverty in the Asia and Pacific region

The international poverty estimates were revised in 2008, and the new poverty estimates were calculated by the World Bank on the basis of a revised international poverty line set at \$1.25 per day (2005 ppp prices). Table 2 shows a proportion of the world's poor, which is living below the international poverty line of \$1.25 a day had fallen from 41.7 percent in 1990 to 24.5 percent in 2005.

Here, the greatest success in poverty reduction has occurred in the Asia and Pacific region, where extreme poverty has declined from 47.8 percent in 1990 to 23.9 percent in

Table 2 Extreme Poverty in the Selected Countries of the Asia and Pacific region, 1990–2007.

	Population living below \$1.25 (2005 PPP) a day (%)				Population living below the national poverty line (%)	
	1990	1996	2002	2005	Earliest	Latest
East and North-East Asia	60.1	36.3	28.3	15.9		
China	60.2	36.4	28.4	15.9	6.0 (96)	4.6 (98)
Mongolia		18.8	15.5	22.4	36.3 (95)	36.1 (02)
South-East Asia	39.2	35.1	25.5	18.9		
Cambodia	48.6			40.2	47.0 (94)	35.0 (04)
Indonesia	54.3	43.4	29.3	21.4	17.5 (96)	16.7 (04)
Lao PDR	55.7	49.3	44.0		45.0 (93)	33.0 (03)
Malaysia	1.6	2.1		0.5		
Philippines	30.7	21.6	22.5	22.6	32.1 (94)	25.1 (97)
Thailand	5.5	1.9	0.7	0.4	32.5 (92)	12.0 (04)
Timor-leste			52.9			
Vietnam	63.7	49.7	40.1	21.5	37.4 (98)	28.9 (02)
South and South-West Asia	47.0	42.3	38.7	35.5		
Bangladesh	66.8	59.4	57.8	49.6	58.8 (92)	40.0 (05)
Bhutan				26.2		
India	51.3	46.6	43.9	41.6	36.0 (94)	27.5 (05)
Iran (Islamic Rep.)	3.9	1.3		1.5		
Nepal		68.4		55.1	41.8 (96)	30.9 (04)
Pakistan	64.7	48.1	35.9	22.6	28.6 (93)	22.3 (06)
Sri Lanka	15.0	16.3	14.0		20.0 (91)	15.2 (07)
Turkey	2.1		2.0	2.7	28.3 (94)	27.0 (02)
North and Central Asia	2.9	8.1	8.4	6.6		
Armenia		17.5	15.0	10.6	55.1 (99)	50.9 (01)
Azerbaijan		15.6	6.3	0.0	68.1 (95)	49.6 (01)
Georgia		4.5	15.1	13.4	52.1 (02)	54.5 (03)
Kazakhstan	4.2	5.0	0.5	3.1	34.6 (96)	15.4 (02)
Kyrgyzstan	18.6	31.8	34.0	21.8	47.6 (01)	43.1 (05)
Russian Federation	2.8	3.5	0.3	0.2	30.9 (94)	19.6 (02)
Tajikistan		44.5		21.5		74.9 (99)
Turkmenistan	63.5	24.8				
Uzbekistan		32.1	42.3	46.3		27.5 (00)
Pacific						
Papua New Guinea		35.8			37.5 (96)	
World Regions						
Asia and the Pacific	47.8	36.5	30.9	23.9		
Africa	47.2	48.5	45.9	42.5		
Europe	1.0	1.5	1.0	0.4		
Latin America and Carib.	9.8	10.8	11.0	8.4		
World	41.7	34.1	30.0	24.5		

Source: ESCAP (2008) <<http://www.unescap.org/stat/data/syb2008> (online database, accessed on 12th October 2009)>

2005. Of the 24 countries in the region for which data are available from both the 1990s and the 2000s, 20 countries have made progress in reducing the share of their population living below the revised international poverty line.

Among the sub regions in the Asia and the Pacific, poverty has fallen everywhere, except in North and Central Asia. In East and North-East Asia, between 1990 and 2005, the proportion of the population living on less than \$1.25 a day declined from 60.1 to 15.9 percent. This was mainly because of progress achieved by China.

Although less spectacularly than in China, poverty has also declined in South-East Asia. The best achievements were in

Indonesia, where between 1990 and 2005 poverty declined from 54.3 to 21.4 percent, and in Viet Nam where between 1992 and 2006 the rate fell from 63.7 to 21.5 percent.

Poverty rates also went down in South and South-West Asia. One of the most striking achievements was in Pakistan where between 1990 and 2004 the share of the population living on less than \$1.25 a day declined from 64.7 to 22.6 percent. Other countries in this sub region, except Turkey, also made some progress, if more slowly than Pakistan. In India, for example, between 1990 and 2005 the poverty rate fell from 51.3 to 41.6 percent in 2005.

However, in North and Central Asia, the situation is more

mixed. For the sub region as a whole, poverty increased in the 1990s and declined somewhat in the 2000s. Armenia, Azerbaijan, Kazakhstan, the Russian Federation and Tajikistan saw a decrease between the 1990s and the 2000s, while in Georgia, Kyrgyzstan and Uzbekistan poverty increased.

In addition to the analysis on poverty based on the international poverty line of \$1.25 a day, Table 2 also presents some data based on the country specified, national poverty lines. These figures have some advantage that they will better reflect local circumstances, being based on the official minimum standard of living. However, they are not comparable across countries and may not even be comparable over time so assessments based on national poverty lines are likely to differ from international poverty figures.

In observing the incidence of poverty in terms of country specific, national poverty lines, the trends are more similar to those indicated by the international poverty line. It was revealed that poverty has been declining in most parts of the Asia and Pacific region.

The most important point emphasised in the above analysis is that poverty reduction in developing countries is very closely related to the GDP growth rate in these countries. The accelerated growth has led to unprecedented poverty reduction. While the overall decline in regional poverty is positive news, there has been very different performance across sub-regions. It is still the case that two-thirds of the extreme poor live in

Asia and the Pacific region.

3.3 Human Poverty

From human development perspectives, poverty means more than the lack of what is necessary for material well-being. According to the Human Development Report (1997), poverty is all about opportunities and choices most basic to human development being denied. Thus, a person is not free to lead a long, healthy, and creative life and is denied access to a decent standard of living, freedom, dignity, self-respect and the respect of others¹⁶.

Recognizing these multiple dimensions of poverty, the Human Development Report (1997) introduced a Human Poverty Index (HPI) in an attempt to bring together in a composite index the different features of deprivation in the quality of life, to arrive at an aggregate judgment on the extent of poverty in a community.

The HPI concentrates on the deprivation in the three essential elements of human life already reflected in the Human Development Index (HDI): (a) survival - the likelihood of death at a relatively early age and is represented by the probability of not surviving to age 40; (b) knowledge - being excluded from the world of reading and communication and is measured by the percentage of adults who are illiterate; (c) a decent standard of living, in particular, overall economic provisioning¹⁷:

The figures in Table 3 reveal that many countries in the Asia

Table 3 Human Poverty Indicators in Selected Countries of the Asia and Pacific region, 2009

	Human Poverty Index (Rank/Points)	Probability to not surviving to age 40 (%)	Adult Illiteracy rate	Children under- weight for age (% age under 5)
China	36 (7.7)	6.2	6.7	7.0
Mongolia	58 (12.7)	10.3	2.7	6.0
Cambodia	87 (27.7)	18.5	23.7	36.0
Indonesia	69 (17.0)	6.7	8.0	28.0
Lao PDR	94 (30.7)	13.1	27.3	40.0
Malaysia	25 (6.1)	3.7	8.1	8.0
Myanmar	77 (20.4)	19.1	10.1	32.0
Philippines	54 (12.4)	5.7	6.6	28.0
Singapore	14 (3.9)	1.6	5.6	3.0
Thailand	41 (8.5)	11.3	5.9	9.0
Timor-Leste	122 (40.8)	18.0	49.9	46.0
Vietnam	55 (12.4)	5.8	9.7	25.0
Afghanistan	135 (59.8)	40.7	72.0	39.0
Bangladesh	112 (36.1)	11.6	46.5	48.0
Bhutan	102 (33.7)	14.2	47.2	19.0
India	88 (28.0)	15.5	3.4	46.0
Iran (Islamic Rep.)	59 (12.8)	6.1	17.7	11.0
Maldives	66 (16.5)	6.0	3.0	30.0
Nepal	99 (32.1)	11.0	43.5	39.0
Pakistan	101 (33.4)	12.6	45.8	38.0
Sri Lanka	67 (16.8)	5.5	9.2	29.0

Source: UNDP (2009)

and Pacific region are far from achieving progress on human poverty. Furthermore, the trends in the composite HPI point to the fact that progress on human poverty reduction in Asia and the Pacific region as a whole during the 1990s–2000s amounted to less than 10 percent¹⁸.

South and South-West Asia shows the highest human poverty situation in the Asia and Pacific region, where many countries are ranked over 50th in the HPI in 2009. Afghanistan shows the highest human poverty situation in the sub region which ranks 135th among 135 countries for the index has been calculated for the year 2009, followed by Bangladesh (112th), Bhutan (102nd), Pakistan (101st), Nepal (99th), India (88th), Sri Lanka (67th), and Maldives (66th).

Though, there was some progress in reducing human poverty in South-East Asia, the progress shows some uneven distribution. Singapore (14th), Malaysia (25th), and Thailand (41st) took a leading role in reducing human poverty in this sub region while Timor-Leste (122nd), Lao PDR (94th), and Cambodia (87th) need still more efforts towards this end.

In the East and North-East Asia, China shows the leading progress in reducing human poverty in the ranking of the HPI, which ranked 36th. According to the ranking, Mongolia, the only other country in the sub region, for which data are available, ranked 58th.

According to Table 3, poor nutrition is a serious problem among children in the region. More than 10 percent of under-fives are underweight in about two thirds of the economies for which data are available. Only Singapore (3 percent), Mongolia (6 percent), China (7 percent), Malaysia (8 percent), and Fiji (8 percent) have a percentage of underweight children below 10 percent. The percentage of underweight children is over 40 percent in Bangladesh, India, Timor-Leste, and Lao PDR; and between 20 percent and 40 percent in a further 15 economies including Indonesia, Pakistan, Philippines, and Viet Nam.

The figures in Table 3 further show that in most countries in the Asia and Pacific region, literacy rates have increased over time. Particularly high gains are recorded for six economies that had low rates in 1990: Bangladesh, India, Lao People's Democratic Republic (Lao PDR), Nepal, Pakistan, and Vanuatu. However, they have the lowest rates of primary school enrollment and the widest gender disparities in education¹⁹.

Furthermore, the average life expectancy of 14 countries in the region is no more than 51 years, compared to 78 years in countries of the Organization for Economic Cooperation and Development (OECD). The possibilities of not surviving to age 40 are over 10 percent for the population in 14 countries in-

cluding the highest possibilities of not surviving in Afghanistan (40.7 percent).

The most disturbing factors in achieving progress in human development in the Asia and Pacific region are larger disparities in public spending for social expenditures. For example, while developed countries in the region spend more per capita on health (83 percent in Japan, 77 percent in New Zealand and 67 percent in Australia), developing countries spend very little (only 11 percent in Myanmar, 18 percent in Pakistan, 19 percent in India and 26 percent in Viet Nam). It is also reflected in the availability of health personnel. In general, high-income countries in Asia and the Pacific have between 1.5 and 3.0 physicians per 1,000 people, whereas most low and middle-income countries have less than one. There are also wide disparities between countries in the number of nursing and midwifery personnel. The number per 1,000 people is 85 or more in Australia, Japan, New Zealand and the Russian Federation but 10 or less in several low-income countries²⁰.

3.4 Inequality in Asia and the Pacific Region

Inequality has to be brought to the forefront in the discussion on poverty reduction. Though, the traditional thinking was that only rapid growth mattered to poverty reduction, there is now increasing recognition that high inequality within and between countries imposes obstacles to poverty reduction²¹.

Answering the question, why was there not more progress against poverty during rapid globalization, Chen and Ravallion argue that rising inequality within and between countries accounts for slow progress in reducing world poverty²². The World Bank is also favorable to this argument, and indicates that;

*..... Countries with high levels of initial inequality have reduced poverty less for given rates of growth than countries with low initial inequality, and if growth is accompanied by increasing inequality, its impact on poverty will be reduced.....*²³.

In examining the overall effects of poverty on the more vulnerable sectors, three sets of income inequality data can be used, such as, Poverty Gap Ratio, Quintile Measure of income distribution and Gini Index.

The Poverty Gap Ratio is based on the international poverty line and measures the extent of extreme poverty indicating how far the extreme poor fall below the poverty line²⁴. The smaller the poverty gap ratio, it is easier for countries to bring

Table 4 Inequality in Asia and the Pacific Region

	Poverty Gap Ratio				Share of poorest quintile in income or consumption (%)		Gini Index			
	1990	1996	2002	2005			1990	1996	2002	2005
East and North-East Asia										
China	20.7	10.7	8.7	4.0		4.3 (04)	29.2	32.2	36.3	35.4
DPR Korea										
Hong Kong, China					5.3 (96)					
Japan					10.6 (93)					
Macao, China										
Mongolia		4.6 (95)	3.6	6.2	7.3 (95)	7.5 (02)		33.2 (95)	32.8	33.0
Republic of Korea						7.9 (98)				
South-East Asia										
Brunei Darussalam	13.8 (94)			11.3 (04)	8.0 (94)	6.8 (04)	38.3 (94)			41.9 (94)
Cambodia	15.6	11.4	6.0	4.6	8.3 (93)	7.1 (05)	29.0	31.2	29.9	34.5
Indonesia	16.2 (92)	14.9 (97)	12.1		9.6 (92)	8.1 (02)	30.4 (92)	34.9 (97)	32.6	
Lao PDR	0.1 (92)	0.3 (95)		0.1 (04)	4.6 (92)	4.4 (97)	47.7 (92)	48.5 (95)		37.9 (04)
Malaysia										
Myanmar	8.6 (91)	5.3 (97)	5.5 (00)	5.5 (06)	5.9 (91)	5.4 (03)	43.8 (91)	46.2 (97)	46.1 (00)	44.0 (06)
Philippines					5.0 (98)	5.0 (98)				
Singapore	0.4 (92)	0.1	0.0 (04)	0.0 (04)	4.6 (92)	6.3 (02)	46.2 (92)	43.4	42.0	42.5 (04)
Thailand			19.1 (01)						39.5 (01)	
Timor-leste	23.6 (92)	15.1 (98)	11.2	4.6 (06)	7.7 (93)	7.1 (04)	35.7 (92)	35.5 (98)	37.6	37.8 (06)
Vietnam										
South and South-West Asia										
Afghanistan	21.1 (91)	17.9 (95)	17.3 (00)	13.1	9.4 (92)	8.8 (05)	26.2 (91)	30.6 (95)	30.7 (00)	31.0
Bangladesh				7.3 (03)						46.8 (03)
Bhutan	14.6	12.4	11.4	10.5		8.1 (04)	30.9	30.7	32.0	32.5
India	1.0	0.2 (98)		0.3	5.2 (90)	6.5 (05)	43.6	44.1 (98)		38.3
Iran (Islamic Rep.)										
Maldives		26.7 (95)		19.7 (03)	7.5 (96)	6.0 (04)		37.7 (95)		47.3 (03)
Nepal	23.2	11.7	7.9 (01)	4.4 (04)	8.1 (91)	9.1 (05)	33.2	28.7	30.4 (01)	31.2 (04)
Pakistan	2.7	3.0 (95)	2.6		9.0 (90)	7.0 (02)	32.5	35.4 (95)	41.1	
Sri Lanka	0.5		0.5	0.9	5.8 (94)	5.3 (03)	41.5 (94)		42.7	43.2
Turkey										
North and Central Asia										
Armenia		4.7	3.1	1.9 (03)	5.4 (96)	8.5 (03)		44.4	35.7	33.8 (03)
Azerbaijan		4.4 (95)	1.1 (01)	0.0	6.9 (95)	7.4 (01)		35.0 (95)	36.5 (01)	16.8
Georgia		1.7	4.7	4.4	6.1 (96)	5.4 (05)		37.1	40.3	40.8
Georgia	0.5	0.9	0.1 (01)	0.5 (03)	7.5 (93)	7.4 (03)	32.7 (93)	35.3 (96)	31.3 (01)	33.9 (03)
Kazakhstan	8.6	9.0 (98)	8.8	4.4 (04)	2.5 (93)	8.9 (03)	53.7 (93)	36.0 (98)	31.7	32.9 (04)
Kyrgyzstan	1.3	1.8	0.1	0.0	4.4 (93)	6.1 (02)	48.3 (93)	46.2	35.7	37.5
Russian Federation		13.7 (99)		5.1 (04)	8.1 (99)	7.8 (04)		31.5 (99)		33.6 (03)
Tajikistan	25.8	7.0 (98)			6.9 (93)	6.1 (98)	35.4 (93)	40.8 (98)		
Turkmenistan		13.9 (98)	12.4	15.0 (03)	7.3 (93)	7.2 (03)		45.4 (98)	34.6	36.7 (03)
Uzbekistan										
Pacific										
Australia					5.9 (94)					
New Zealand						6.4 (97)				
Papua New Guinea		12.3			4.5 (96)			50.9		

Source: ESCAP (2008) <<http://www.unescap.org/stat/data/syb2008> (online database, accessed on 12th October 2009)>

people above the \$1.25-a-day threshold.

According to Table 4, during the last decade the poverty gap has narrowed in many parts of the Asia and Pacific region. It reveals that the highest poverty gap ratios are found in the least developed countries confirming that the pockets of extreme poverty are concentrated among the poorest and most vulnerable areas. For example, Nepal, with 19.7 percent in 2005, and Timor-Leste with 19.1 percent in 2002 show the highest poverty gap ratios in the region.

The poverty gap ratios are also high in Bangladesh with 13.1

percent, Cambodia with 11.3 percent and the Lao People's Democratic Republic with 12.1 percent in 2000s, even though these ratios have declined over the past decade. In North and Central Asia, the highest poverty gap ratio is in Uzbekistan at 15 percent in 2005, which shows some increase when compared to 12.4 percent in 2002.

The Quintile Measure is another important indicator to identify the inequalities among countries. It shows the percentage of total household income (in many countries household consumption expenditure is used as a proxy for household

Table 5 Rural and Urban Poverty Gap Ratios and Gini Index of the Three Largest Countries in Asia and the Pacific Region

		Poverty Gap Ratio		Gini Index	
		Urban	Rural	Urban	Rural
China	1990	5	27	26	31
	2005	0	6	35	36
India	1993	11	14	34	29
	2004	10	11	38	30
Indonesia	1990	15	16	35	26
	2005	4	5	40	30

Source: ESCAP (2008) <<http://www.unescap.org/stat/data/syb2008>> (online database, accessed on 12th October 2009)>

income) that is received by the poorest 20 percent (one fifth or “quintile”) of the population²⁵). Low percentages reflect greater inequality while high percentages indicate a more even distribution of incomes.

According to Table 4, this proportion ranges from 10.6 percent in Japan to 4.3 percent in China. The poorest tend to receive the smallest share in the middle- and higher-income economies such as Turkey, the Islamic Republic of Iran, Thailand, Malaysia and Singapore. However, they do better in India with 8.1 percent, Pakistan with 9.1 percent, and Bangladesh with 8.8 percent.

The Gini Index is most commonly used for measuring inequality. The coefficient varies between 0, which reflects complete equality and 1, which indicates complete inequality (one person has all the income or consumption, all others have none)²⁶). Nevertheless, this gives similar results, Table 4 shows the greatest inequality is in Papua New Guinea (with data from 1996), Nepal, the Philippines, Turkey and Thailand.

The figures in Table 5 show that extreme poverty is more pronounced in rural areas than urban centers, as indicated by poverty gap ratios for the three largest countries in the Asia and Pacific region, such as China, India, and Indonesia. These data further reveals that inequality has increased in both rural and urban areas. Particularly, in India and Indonesia, it was evident that inequality in urban areas is notably higher than in rural areas, because most of the wealthy people are located in the cities. But, in China, the situation is quite different, where inequality in the cities and the countryside is now similar, largely because between 1990 and 2005 there was a notable increase in urban inequality as the Gini index increased from 26 to 35.

4. Poverty, Growth, and Inequality in Sri Lanka

Sri Lanka is selected here as an appropriate case study to examine the poverty and inequality in globalized Asia, because it was the first South Asian country to open up to the global economy and is today one of the most open economies in the Asia and Pacific region. Its appropriateness also stems from the fact that from the time of independence (1948), Sri Lanka accepted economic development must be underpinned by sound social protection regimes, investment in human resources, and the promotion of gender equality.

Following market reforms in the 1970s, the country's per capita GDP grew at over 3 percent between 1990 and 2002. Yet, during the same period, the share of people living in poverty fell by only 3 percent. Inequality rose sharply. GDP in the Western Province, the wealthiest province in the country, grew at a rate nearly three times faster than the other areas. Although urban poverty fell, rural poverty hardly changed, and estate poverty has increased. Western Province, which had the fastest growth and poverty reduction, also saw some rise in inequality among the income groups.

This section therefore takes a closer look at these uneven growth patterns and their underlying causes, and summarizes the current state of knowledge about why large numbers continue to be poor in Sri Lanka, though GDP grew at a healthy rate in absolute terms since the country opened its economy to world markets.

4.1 Economic Reforms in Sri Lanka After Independence in 1948

During the post-independence period most economic activities of the country including manufacturing, trade, transport, telecommunications and financial services were dominated by state monopolies and subjected to state controls.

However, the initial phase of economic reforms, during 1977–82 focused mainly on liberalization of trade and investment regimes. The quantitative restrictions on imports were removed and more uniform tariff structures were established. Furthermore, a highly overvalued currency, which was largely the result of trade suppression, was realigned.

Relating to the investment front, several impediments to Foreign Direct Investment (FDI) were relaxed. The Greater Colombo Economic Commission (GCEC), the forerunner to the Board of Investments (BOI) was established in 1978 to promote investments into export-oriented activities. The

GCEC, while establishing several export processing zones (EPZ's) was also responsible for formulating and implementing an incentives package for foreign investments.

There is no doubt that these early reforms led to higher economic growth and the transformation of the country's export base from agriculture to manufacturing. Although the country has been riddled with the civil conflict since 1983, the benefits of reforms continued and growth was sustained during the 1980s²⁷⁾.

The 1990s witnessed the second wave of reforms towards more open economy spanning two successive governments. Key reforms included the removal of exchange control restrictions on current account transactions (i.e., the opening up of the current account) and the privatization of large state owned enterprises in the plantation, insurance, telecom, and airlines sectors. Steps were also taken to further lower and simplify the tariff structure and strengthen the policy framework for FDI and portfolio investment.

As the World Bank argues, the results of these initiatives were notable. The country's industrial exports expanded rapidly and gained market share, particularly toward the end of the 1990s. By 2000, garment exports reached US\$3 billion, contributing 50 percent of total exports. In addition, the increased privatization efforts saw Sri Lanka attracting

much FDI. In 1997, FDI reached the record level of US\$430 million²⁸⁾.

4.2 Poverty Trends and Patterns in Sri Lanka

According to the UN-ESCAP calculations, Sri Lanka is on track to halving between 1990 and 2015, the proportion of people whose income is less than \$1.25 a day²⁹⁾. Nevertheless, a fifth of all Sri Lankans remain in consumption poverty and the decline in poverty rates has been disappointingly modest, about 3 percentage points between 1990 and 2002.

Growing sectoral and regional differences in poverty reduction rates are also apparent. Urban poverty halved, rural poverty declined by less than 5 percentage points, and poverty incidence in the estates increased by about 50 per cent between 1990 and 2002³⁰⁾.

The growing urban – rural gap is largely due to concentrated economic growth in Western Province. Due to its proximity to ports, the Western Province was able to take advantage of the opportunities from market reforms adopted since the late 1970s, and better integrate with global markets.

The services sector (wholesale and retail trade, transport, communications) dominates economic activity in the Western Province, accounting for 65 percent of provincial GDP and over 55 percent of employment³¹⁾.

Table 6 Poverty and Inequality in Sri Lanka (as percent of total population), 1990–2002

	1990–91	1995–96	2002
Poverty Indicators			
Poverty Incidence	26.10	28.80	22.70
Poverty Gap	0.05	0.06	0.05
Poverty Severity	0.01	0.02	0.01
Poverty Incidence by Sector			
Urban Poverty	16.30	14.00	7.90
Rural Poverty	29.40	30.90	24.70
Estate Poverty	20.50	38.40	30.00
Poverty Incidence by Region			
Western	21.00	18.00	11.00
North Central	24.00	24.00	21.00
Central	28.00	37.00	25.00
Northwest	25.00	29.00	27.00
Southern	30.00	33.00	28.00
Sabaragamuwa	31.00	41.00	34.00
Uva	33.00	49.00	37.00
Inequality: Gini Coefficient by per capita expenditure			
National	0.32	0.35	0.40
Urban	0.37	0.38	0.42
Rural	0.29	0.33	0.39
Estate	0.22	0.20	0.26

Source: World Bank (2007)

Note: Data excludes Northern and Eastern Provinces for which the official poverty data are not available

As argued by the World Bank, another notable factor is the recent rapid expansion of the telecom sector following the opening of the sector to competition and the privatization of Sri Lanka Telecom. Manufacturing accounts for one-third of GDP and employment in the province. Much of the dynamism of the sector reflects the rapid expansion of labor-intensive garment exports, following the liberalization reforms in the late 1970s and establishment of export processing zones (EPZs). Over 70 percent of garment factories are located in the Western Province, mainly the Colombo and Gampaha districts, employing about 200,000 workers (or about 65 percent of employment in the garment industry)³².

By contrast, market reforms have been more limited outside the Western Province, which has remained predominantly rural in character. In particular, agricultural policies have been geared toward the achievement of self-sufficiency in paddy production rather than the development of high-value agricultural markets. As a result, private investment in commercial agriculture and agro-business has been limited. The shortcomings in the provision of economic infrastructure in rural areas, which have no doubt further constrained the development of high-value agricultural markets, are themselves a reflection of lack of progress in reforming these services³³.

As a result, the poverty in Western Province more than halved, it declined only modestly in the North Central, Central and Southern Provinces, and actually increased in North Western Province, Sabaragamuwa and Uva (see Table 7).

In addition to disparities in growth between the Western Province and the rest of the country, the slow pace of poverty reduction in Sri Lanka is also linked to rising inequality among

income groups. Average per capita consumption grew by 50 percent for the richest consumption quintile but by only 2 percent for the poorest quintile.

The Gini coefficient of per capita consumption in Sri Lanka increased at an annual rate of 2 percent, much higher than for East Asian comparator countries with the exception of China. Thus, for every 1 percent annual growth in GDP per capita, the poverty headcount ratio declined by 0.4 percent in Sri Lanka, compared with 0.9, 1.4, and 2.6 percent in Korea, Vietnam and Thailand, respectively³⁴.

Even though the pace of consumption poverty reduction was slow, Sri Lanka has fared quite well in terms of human poverty indicators. The country is an early achiever with regard to several MDG indicators, such as universal primary school enrolment, gender parity in primary and secondary school enrolment, under five child mortality and infant mortality, universal provision of reproductive health services, TB prevalence and death rates and access to safe water and sanitation.

However, national figures show a considerable gender-related, sectoral and regional variation in terms of achieving those indicators relating to human development. The figures in Table 8 set out selected development indicators by sex, sector and province. It can be seen that while girls fare much better across the country in primary completion rates and under five mortality rates, malnutrition rates among boys and mortality rates among male infants are lower. As Gunatilaka argues even though there are no apparent gender disparities in schooling opportunities for children, there is intra-household discrimination against girls in the access to nutrition and health services³⁵.

Table 7 Poverty Indices and Access to Infrastructure by Province

	Poverty headcount ratio (%)	Contribution to GDP (%)	Employment by Industrial Sector (percent of employed)			Accessibility (%)				
	2002	2002	Agriculture forestry fishing 2003	Industry 2003	Services 2003	Average accessibility index 2004	Average travel time to Colombo 2004	Enterprises using electricity 2004	Enterprises with landline or mobile 2004	Enterprises located near bank 2004
Western	11	48.1	9.3	35.9	54.8	3.8	73	79	24	70
Central	25	9.4	43.8	19.1	37.1	3.1	200	80	7	47
Southern	28	9.7	39.8	24.1	36.1	3.1	229	68	18	62
Northwest	27	10.1	28.5	32.5	39	3.1	177	61	15	70
North Central	21	3.9	50	15.6	33.5	2.9	304	61	8	75
Uva	37	4.3	63.7	9.2	27.2	2.8	295	62	23	78
Sabaragamuwa	35	6.9	44.9	27.4	27.8	3.3	152	76	15	70
Correlation with Headcount						-0.62	0.47	-0.32	0.2	0.14

Source: Central Bank of Sri Lanka (2007) for data on employment by industrial sector; other indicators from World Bank (2007)

Note: Accessibility index calculated for every point as the sum of the population totals of surrounding cities and towns, inversely weighted by the road network travel time to each town. The numbers show the mean of the access values for all points that fall into a given province. Average travel time to Colombo city is estimated travel time to each town based on geographical information of road network. The numbers show the mean travel time for all points that fall into a given province.

Table 8 Selected Human Development Indicators by Sector and Province (%)

	Child Malnutrition		Primary Education Completion Ratio		Under Five Mortality Rate		Infant Mortality Rate		Maternal Mortality Rate	Households with access to safe water (2001)	Households with access to improved sanitation (2001)	Households with access to electricity
	2000 Male	2000 Female	2002 Male	2002 Female	2002 Male	2002 Female	2002 Male	2002 Female	2002			2003
Sri Lanka	29	30	94.7	96.5	14.9	12	12.9	10.2	14.4	82	67.5	74.9
Sector												
Urban					18.7	14.9	16.9	13.1	13.3	95.9	77.8	
Rural					7.6	6.4	5.2	4.6	13.8	81.2	67.5	
Estate					22.1	20.6	16.4	15.7	88.1	61	43.2	
Province												
Western	19	23	98.7	99.5	15.6	12.2	14	10.5	9	91.5	77.6	92.4
Central	37	38	95.2	96.7	18.2	14.5	16.1	12.4	18.1	78.3	56.6	72.7
Southern	24	33	94.4	96.9	10.3	7.4	9.3	6.7	14.8	80.5	72.3	78.4
Northern			88.6	90.7	10.5	8.7	7.6	6.1	13.3			63.6
Eastern			90.3	92.9	15	11.4	10.6	8.1	19.1			65.6
Northwest	31	33	95.1	97.6	12.5	11.1	10.8	9.6	10.3	87.9	69.6	68.5
North Central	28	33	96.2	98.1	20.3	17.5	18.6	15.8	13.1	80.5	49.7	62
Uva	40	38	92.8	94.7	16	12.2	14.4	10.8	28.7	67.9	50.9	56.7
Sabaragamuwa	39	22	95.3	96.1	15	13.6	12.7	11.4	17	63.8	66.1	64.7

Source: Child malnutrition rates from World Bank (2005); Access to electricity from Central Bank of Sri Lanka (2007); other statistics from Department of Census and Statistics of Sri Lanka (2005)

Note: Child malnutrition defined as percent of children who are moderately or severely underweight

Regarding the performance by sector, the urban sector is the best off and the estate sectors by far the worst off in terms of achieving human development indicators. According to the World Bank, 37 percent of estate children were stunted as against 8.3 percent in urban areas, and 14 percent in rural areas in achieving child nutrition. Likewise, 46 percent of estate children were underweight compared with 18 percent in the urban sector and 31 percent in the rural sector³⁶.

In a regional perspective, Western Province performs the best in all indicators, except in infant mortality. The Northern and Eastern Provinces fare the worst in terms of primary education completion rates, obviously due to the disruptive impact of the conflict and displacement on schooling. But the region fares well in terms of infant mortality. Under-five mortality is worst in North Central Province, but Uva and Sabaragamuwa are by far the worst off in terms of all remaining indicators other than in access to electricity. Here the worst off are Uva, North Central and Northern Province in that order.

Summarizing this section, it can be argued that poverty in Sri Lanka is strongly associated with a range of spatial factors, such as poor regional growth and employment opportunities, and the availability of economic infrastructure, such as roads, electricity and telecommunication. Hence, reducing spatial and regional inequalities in access to infrastructure services appears fundamental to engendering more equitable growth and a faster rate of consumption poverty reduction in Sri Lanka.

5. Conclusion and Policy Implications

There is no doubt that rapid globalization poses new opportunities as well as new challenges for the countries in the Asia and Pacific region. The Asia and Pacific region as a whole has clearly made some remarkable progress in terms of achieving strong economic growth, and reducing poverty during the period of rapid globalization.

In general, the growth rate of the developing countries has accelerated, while rich country growth rates have declined. As a result, the absolute number of persons living in poverty and their percentage in the total population has declined in many countries, especially in the East and South-East Asian sub regions.

However, a closer examination of recent trends in extreme poverty in the Asia and Pacific region is more disquieting. There are several exceptions to the positive growth over the past decade, including the Central Asian countries, Afghanistan, Mongolia and the developing Pacific island economies. Still, over 950 million persons in the region continue to live in poverty. Extreme poverty affects at least 10 percent of the population in many parts and must be considered a failure of policy and programmes in reducing poverty.

The experience in Sri Lanka provides a best example of how market-oriented policies can unleash economic growth

and prosperity, while the lack of such policies can lead to economic stagnation and persistent poverty. Most of the economic reforms taken by the government in 1970s and 1980s affected the Western Province, which proceeded to generate a supply response in the industrial and service sectors, cutting its poverty rate in half.

Meanwhile, these market reforms have not reached the rest of the country, which remains predominantly rural. In the agriculture sector in particular, reforms in land markets and paddy cultivation, as well as policies to improve the marketability of agricultural products, have been elusive, and rural incomes have stagnated. Furthermore, poverty reduction has been slow due to widening inequalities among income groups and across regions, because of the concentration of the growth in Western Province.

In the future therefore more inclusive economic growth will require easing specific constraints affecting particular sectors, regions, and groups, but priorities critical for all include improving the quality of education, access to infrastructure like electricity, connectivity to markets and urban centers, and access to finance for micro enterprises. These changes should maximize economic opportunities for the poor and those in under-served regions in terms of moving to higher paying occupations, setting up or expanding micro enterprises, or migrating to work in modern industries.

Since many of these opportunities are created in the urban sector, poverty reduction will require better and simultaneous coordination between rural development strategies and urban planning and development. Policies to address poverty reduction must address multiple dimensions simultaneously. Improving the connectivity of poorer and remote areas to markets will be particularly important.

Finally it can be concluded that in view of the diversity of national situations and institutional arrangements, there is no single “one-size-fits-all” package of policy measures that could be applied in all countries in the Asia and Pacific region. However, the following broad policy implications can be drawn from the present study for making globalization work better for poor;

- (a) Growth with equity: pro-poor growth through human resources development, employment-generating opportunities, and effective social protection system (both formal and informal);
- (b) Rural development that includes access to land, investment in infrastructure, access to credit and savings institutions and protection from unfair competition;

- (c) Improved governance in terms of the participation of the poor (or representative civil society organizations) and collaboration with all stakeholders in local planning processes;
- (d) International/regional cooperation to remove trade barriers enhances debt relief measures, eliminate harmful tax and competition practices and strengthen standards.

Acknowledgements

The author greatly acknowledges Prof. Sawada Takayuki, Faculty of Management, Meijo University and Prof. Hideharu Morishita, Graduate School of policy Studies, Aichi Gakuin University for their detailed comments on the paper, as well as Prof. Shigeru Fukushima, Faculty of Urban Science, Meijo University for his kind guidance and advice. This study also benefited from the research grant provided by the Meijo Asian Research Center of Meijo University (Japan).

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- Polynesia; Guam; Kiribati; Marshal Islands; Micronesia (Federated States of) (Micronesia (F.S.)); Nauru; New Caledonia; New Zealand; Niue; Northern Mariana Islands (Northern Mariana Is.); Palau; Papua New Guinea; Samoa; Solomon Islands; Tonga; Tuvalu; Vanuatu. The classification by income group follows the definition of the World Bank: Economies are divided according to 2007 GNI per capita, calculated using the World Bank Atlas method. The groups are: low-income: \$935 or less; middle-income: \$936–\$11,455; and high-income: \$11,456 or more.
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DO STRATEGIES IMPROVE SME PERFORMANCE? AN EMPIRICAL ANALYSIS OF JAPAN AND SRI LANKA

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Abstract

The relationship between business strategy and organizational performance has been a subject of growing interest in the field of strategic management. Despite this trend, there has been little attention given to a comparative analysis of this relationship between two different economies. The aim of this study is to empirically investigate the performance differences and business strategy orientation of small and medium sized Enterprises (SMEs) in two Asian economies. Data for the research were obtained from a survey of SMEs in manufacturing industry in Japan and Sri Lanka. Results indicate that the performance of SMEs varies with the choice of strategy orientation that owner-managers adopt. The findings and implications of this study would be useful to owners and managers of SMEs, while contributing to the literature on SMEs as well.

KEY WORDS : SMEs, Business Strategy, Performance

1. Introduction

The small and medium sized sector is increasingly recognized as the prime vehicle for economic development in both developed and developing nations¹⁾. It is a major source of employment, revenue generation, innovation and technological advancement²⁾. Therefore, SMEs have become a major asset in the economy. In most of the countries in the world, the level of economic dependence on small and medium enterprises has increased in recent years. The individual performance of each enterprise determines economic development.

Strategy plays a crucial role in the firms' performance³⁾. Strategy gives the direction that a firm has in mind and in which way they want to achieve their goals. The performance of an enterprise is determined by the business strategy it adopts^{4,5)}. Many researchers have associated business strategies with performance, distinguishing between strategies associated with high and low performance^{6,7,8,9)}. Further, in literature, it also investigates the different strategy typologies and firm performance and determines which strategy typologies lead to best performances for firms^{10,2)}.

The impact of business strategy on organizational performance has been a subject of growing interest in the field of strategic management. However, almost all these studies

are limited to large enterprises and carried out in a western context. Despite this trend, the literature suggests that a few studies have addressed this issue in the SME sector^{11,12)}. However, little research has been done to compare the strategy-performance relationship in a context of two different economies. Therefore, the current study fills the void in the literature by investigating the strategy-performance relationship in SMEs of two different economies. Such an approach would certainly help in enhancing knowledge of the business strategy and performance relationships in SMEs.

In particular, this study fills in the gaps in regard to empirical research on the strategy and performance of SMEs in two Asian economies. As such, this study is an attempt to examine and compare the relationship between strategy and business performance using a sample of manufacturing SMEs that are operating in the developed Asian economy of Japan and the developing Asian economy of Sri Lanka.

SMEs play a major role in every area of the national economy in Japan and Sri Lanka. Their importance is indicated by the very large share of the economy that they occupy, whether in terms of number of enterprises, total number of employees, or export earnings. In the county of Japan, in 2006, SMEs numbered 4.2 million and accounted for 99.7% of all firms comparing to the 0.3% of large firms. SMEs employed 42 million people, which is 78% of total employment. SMEs ac-

counted for 47.7% of total manufacturing shipment volume in 2006¹³). However, the exit rate of SMEs has had an upward trend in recent years and it has risen by an annual average of 6.2% (based on the number of enterprises) between 2004 and 2006 compared to 5.1% of entry rate. Compared to this, in the country of Sri Lanka, in 1996, small and medium Scale Industries (SMIs) account for 85.4% of all businesses and 36.3% of employees are employed by them¹⁴). Further, it is noted that manufacturing SMEs play a vital role in socio economic development in Japan as well as in Sri Lanka, even though these two countries have two very different economic levels.

The remainder of this paper is organized as follows. Section 2 is a review of the literature related to the concepts of business strategy, performance, and the relationship between strategy and performance. The methodology used in this study, including sample characteristics, data collection and data analyses used to investigate the research problem are discussed in section 3. The results are reported in part 4, followed by the conclusions drawn from the study in part 5.

2. Literature Review

2.1 Business Strategy

In the literature on SMEs, there is yet no clear consensus on what strategy is, rather there are many definitions. Strategy is frequently described as a deliberate set of actions to achieve competitive advantage, giving coherence and direction to the organization¹⁵). The literature suggests that firms can have a single strategy or multiple strategies and these strategies are likely to exist at three levels. They are the corporate level, business unit level and functional level business strategies. The present study focuses on business functional level strategies.

A business strategy is an overall plan of action which defines the competitive position of a firm¹⁶). For example, a firm may choose to compete by producing high quality goods or by producing at low cost.

Business strategies are implemented through the major functional areas in finance, production, marketing, human resource management (HRM), and research and development (R&D). In turn each functional strategy is made up of several activities. Therefore, activities act as guides to the realization of the overall business strategy¹⁷). Activities which comprise the various functional strategies centre around the following;

✧ Finance – capital structure; methods of raising capital:

capital expenditure: levels of profit distribution and retention: working capital: and liquidity level¹⁸).

- ✧ Production – selection of suppliers: inventory and productivity levels: production technology and plant size and capacity as well as levels of efficiency in production.
- ✧ HRM – staff recruitment and selection, employee training, performance and remuneration, reward and disciplinary systems, industrial relations and levels of employee participation in decision making¹⁹).
- ✧ Marketing – product quality, pricing and promotion, customer target groups, choice of distribution channels, provision of customer service and support, and identification with brand names¹⁸).
- ✧ R&D – new product development, new production technologies and marketing techniques, patent acquisition, basic versus applied research and levels of limitation¹⁸).

The effectiveness of the overall business strategy depends substantially on how well activities in the various functional areas are integrated to form a pattern^{20,21}). This pattern defines the firm's business strategy and therefore competitive position within the industry¹⁶). Several researchers have highlighted different business strategies by which firms compete^{10,22,23,20,21,24}). However, research in this area is limited to be descriptive and centers on orientations of owner/managers to certain functional activities.

The essence of strategy is to understand why organizations perform differently, and how performance can be directed and controlled²⁵). Indeed, the relationship between strategy and performance has concerned researchers for years and these efforts have fallen into two separate but interrelated streams like process and content²⁶).

Three basic factors influence managements' choice of strategy; management, environmental variables, and the firm's internal resources²⁷). The degree to which management and environmental variables influence business strategy has been debated by a number of researchers. Montanari (1978) stated that the greater the influence of environmental variables on business strategy, the less will be the impact of management²⁸). Qualifying support comes from Miller and Toulouse (1986) who noted that management has greatest influence in dynamic, unpredictable, and changing environments²⁹).

Miller (1988) noted that managers have greater influence on business strategy in small firms, where the manager is also the owner of the firm, than in large firms³⁰). He explained that owner-managers are powerful enough to override obstacles to the successful realization of their business strategies. They

have enormous impact on their enterprises through their power of ownership and face to face contact with employees²⁹⁾. The owner-manager is thus at the centre of all enterprise behaviour⁸⁾.

2.2 Performance in SMEs

Research has established the important role that small enterprises play in economic development^{31,32)}. The role is dependent on the individual performance of each enterprise.

In research concerned with SMEs, assessing performance has become a critical issue. It is suggested that the treatment of performance in research settings is one of the difficult tasks confronting academic researchers³³⁾. One of the reasons for this is that, it is not always clear what performance means or what are appropriate operational definitions. In the discussion of entrepreneurship research, a wide variety of definitions and variables are used to define and measure the terms of performance in a business³⁴⁾. Similar to this, the developed conceptual frameworks for assessing performance in small firms are also reflected by a multi dimensional nature. According to Keats and Bracker (1988), performance has a different set of meanings for small firms as opposed to large firms and it is represented as an undifferentiated, one dimensional concept which implies a number of interpretations and appropriate measurements³⁵⁾.

This diverse nature of the performance construct is reflected in the variety of operational definitions and measurements used in past research studies in literature related to SMEs and performance. Earlier, many studies emphasised traditional accounting measures for performance such as sales growth, market share, and profitability as well as with other indicators of stakeholder satisfaction³⁶⁾. Murphy, Trailer and Hill (1996) provide an analysis of 51 articles and found 71 different operational measures of performance that they grouped in eight major dimensions of which efficiency, growth, and profit were most frequently used³⁴⁾.

However, within this context, it can be seen in the literature, most of research considered the performance in the small firms and was limited to financial measures alone³⁷⁾. The performance is measured in terms of various financial measurements based on sales revenue, profits, return on investment/equity etc^{37,38,39)}. The applied financial performance measures are sales level, sales growth rate, cash flow, return on shareholder equity, gross profit margin, net profit from operations, profit to sales ratio, return on investment, and ability to fund business growth from profits⁸⁾. Few research

studies considered the industry specific financial performance data as dependent variables to identify the performance in SMEs^{38,40,41,42,39)}.

Later, in addressing the limitations associated with the use of financial data in measuring performance in small firms, non financial measures of performance were used^{43,44,45)}. Further, performance measured by this method has been found to have high reliability and validity rates and to reflect accurately the firm's objective performance⁴⁴⁾. Ramanujam, Venkatraman and Camillus (1986) and Reid and Smith (2000) suggest that the effectiveness of performance must be measured according to what goals a firm has set, and then enquires into the extent to which these goals have been achieved^{46,47)}.

In short, it shows that various measures are used in determining the performance level of firms. When used singly, these different measures are bound to give conflicting results, because they measure different performance aspects of the firm. Gibson and Cassar (2005) concentrated economic success to measure the performance of SMEs and used both financial indicators (sales and income measures) and non financial indicators (number of employees)⁴⁵⁾. Further, a range of other operational measures have also been used. They include new product success, market share, and the firm's life cycle. Some studies attempted to assess performance on the basis of a general measure of effectiveness and Kotey and Meredith (1997) and Blackman (2003) used this similar approach including variables as high productivity, industry leadership, creating new jobs, business stability, high profit rates, lower cost of production, community development and business growth^{2,48)}.

Moreover, in recognizing the problem of using financial measurements alone, Ramanujam, Venkatraman and Camillus (1986), Tosi and Gomez-Mejia (1994), Yusuf and Saffu (2005) recommended that performance should be measured with both financial and non-financial criteria, employing objective and subjective data^{46,49,50)}. Because of the difficulty in obtaining reliable information and the inherent reluctance of small business people to disclose financial information, researchers asked the respondents to indicate the direction of their companies over the past few years³⁹⁾. Pushpakumari and Wijewickrama (2008) used both financial and non-financial measures such as annual sales, annual profits, number of employees, market share and reinvestment in the business to measure the business performance of SMEs⁵¹⁾.

The above literature review related to the performance of SMEs suggests that different measures are identified and

applied, but there is no any accepted set of best standard measurements. Therefore, in the current study, business performance is identified in terms of including financial and non-financial measures of annual sales, annual profits, number of employees, market share and reinvestment in the business.

2.3 Business Strategy and Performance

The performance of an enterprise is determined by the business strategy it adopts^{4,5}. Many researchers have associated business strategies with performance, distinguishing between strategies associated with high and low performance^{6,7,8,9}. Strategies which result in high performance are identified with activities that generally lead to success in the industry; that is key success factors²³. These activities are associated with initiatives in industry⁵². Researchers have identified such initiatives to include emphasis on product quality, product and service innovations, development of new operating technologies, and discovery of new markets²¹. Activities associated with high performing strategies also include emphasis on customer service and support, extensive advertising, and use of external finance⁸. Further, because high performing strategies involve initiative-taking, they are often referred to as proactive strategies⁵³. All the activities of a proactive strategy are well integrated²⁰.

Firms which perform below average tend to follow others in the industry and to react to events in their environment. Such firms are characterized by strategies which emphasize risk avoidance and involve little innovation⁵⁴. Strategies of low performing firms include limitations of more successful firms in the industry, but usually fall short in some important respect²³. The activities that comprise these strategies are often not well integrated and are mismatched with the demands of the environment²³. They are often referred to as reactive strategies because they are characterized by reactions to events rather than by initiative-taking⁵³. In reality, the two strategies may not be so clearly distinguishable. Firms pursuing proactive strategies may sometimes conform to industry norms and adopt standardized strategies. However, they do this not out of tradition, as with low performing reactive strategies, but because that is the best strategy at the time. Strategies with varying degrees of proactivity and reactivity lie along the proactive-reactive continuum.

Focusing on business strategy items and performance, some studies have identified that there are some relationships between strategy activities and performance. The activities of improving existing products to meet changing customer

needs, developing new products and emphasizing product quality are associated with market share increases by attracting new customers and retaining existing ones^{55,21}. In contrast, low performing firms are likely to ignore these innovative and risk taking activities. High performing firms are implementing new production technologies, emphasizing cost effectiveness and concerned with employee productivity to compete with competitors within the industry more so than the low performing firms^{56,57}. Furthermore, Kotey and Meredith (1997) pointed out that when firms are advertising more, identifying brand names for products, greater emphasizing customer service and credit, exploring marketing techniques, it leads to an increase in high performance². As far as financial strategic activities are concerned, they also stated that high performing firms use more debt financing and assessment of costs and benefits associated with alternative sources of external funding than the low performing firms. As mentioned in the literature, SMEs are more labour intensive than the large firms. Within their research, it is also found that assessment of employee performance, concern with employees' well being and job satisfaction, involving employees in decision making are more common in high performing firms than low performing firms. Research shows that owner-managers, who seek the assistance of experts and make networks within the industry, perform better than those who do not⁵⁸.

Particularly, some empirical studies investigated the different strategy typology (orientation) and performance of firms. In considering the two groups of strategy orientation of proactive and reactive strategies, research which was done in the furniture industry related to business strategies and performance by Kotey and Meredith (1997) demonstrated that high performers pursue proactive strategies and low performers pursue reactive strategies². Average performing firms exhibit a combination of proactive and reactive strategies. Similar to this, they investigated four different strategy typologies and performances and concluded that prospector strategy (proactive strategy) influences the growth of the company¹⁰. This idea is also supported by Matsuno and Mentzer (2000)⁵⁹.

From a review of the above literature and to investigate the research objective, the following conceptualized research model (Figure 1) was developed to test the business strategies and their relationship with enterprise performance. Business strategies were defined in terms of twenty five (25) strategy items which is developed based on the literature from five business functional areas such as finance, production, HRM, marketing and (R&D)^{2,48}. Business performance of SMEs

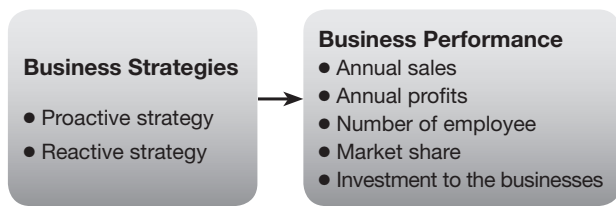


Figure 1: Conceptualized Model for Association between Business Strategy of SMEs and Enterprise performance

was measured in terms of mixed financial and non-financial measures including increased annual profits, annual sales, market share, number of employees and reinvestment in the business.

The research methodology which was applied to investigate the conceptualized model is presented as follows.

3. Methodology

3.1 Sample

For the purpose of achieving the main research objective of examining the relationship between business strategies and business performance, a total number of five hundred and fifty (550) SMEs in Aichi Prefecture in Japan and five hundred (500) in Western province in Sri Lanka were selected from manufacturing SMEs. Aichi Prefecture is the third largest prefecture in terms of number of establishments of SMEs and also produced the highest shipment in Japan⁶⁰. Therefore, this prefecture has a high industrial contribution to the GDP and plays a crucial role in economic development. Similar to this, Western province has the highest number of industrial establishments in Sri Lanka and also a high contribution to the GDP⁶¹. The electronic databases maintained by the Aichi Association of Small Business Entrepreneurs (from 2005 to 2007) and Government of Aichi Prefecture were used to draw the sample in Japan and a database maintained by the National Chamber of Commerce was used to draw the sample in Sri Lanka. Within these databases, only registered *manufacturing* SMEs were considered among all registered SMEs. It is noted that, manufacturing SMEs employ the largest number of employees compared with other SME industries in Japan as well as in Sri Lanka. Further, SMEs whose employees are less than 300 were included in the sample as they are considered to be “SMEs” according to the Small and Medium Enterprise Basic Law of defining manufacturing SMEs in Japan¹³. Similarly, this criterion was also applied in the Sri Lankan context as there is no standard definition.

3.2 Data Collection

The researcher collected primary data pertaining to business strategies and performance and a mail survey was conducted to collect them from the two samples in Japan and Sri Lanka. Furthermore, the questionnaire method was chosen as a principal technique of data collection, because it afforded the advantages of vast coverage, speed, cost, less pressure and versatility.

A comprehensive questionnaire was developed that was comprised of four major parts. The first part included seven questions related to owner-manager characteristics: age, sex, marital status, educational qualifications, experience, most important reason for entering business and whether the individual had a family member who owned a business. The second part included questions related to the firm/business characteristics, including industry, age, number of employees, source of resources, market for production, whether the business is a family business and number of managers and supervisors. These data were utilised to identify a more meaningful profile for the sample.

The third part followed the questions related to the business strategies of the firm. A total of twenty five (25) operational strategic activities were developed covering five major areas of finance, production, HRM, marketing and R&D. Particularly, under business strategies, the first four questions were related with the finance strategic activities of the firm including use of outside borrowed funds, searching for sources of finance, reinvesting profits earned and maintaining large cash balances. Next activities from no. 5 to 9 were followed by the production strategies. Such as changing or reinvesting production methods, improving existing products to meet changing customer needs, developing new products, emphasizing product quality, and emphasizing cost reduction in all areas of the business. Activities no. 10 to 15 were focused on the HRM strategies, asking about the activities from respondents, involving employees in decision making, using clear personal policies in reward and punishment of employees, emphasizing employee welfare, assessing employee performance, assessing employee job satisfaction, and emphasizing employee productivity. Marketing strategies are included (activity no. 16 to 22) the activities such as using brand names, advertising products, extending customer credits, pricing products at market price, emphasizing customer service, selling products direct to end users, and selling through distribution channels. The last three activities illustrated the R&D strategies such as consulting technical experts, taking part in activities related

to trade or industry associations and attempting to predict industry trends and acquiring knowledge of competitors' activities. Within the questionnaire, in this part, participants were asked to rate the degree of extent to which each activity is undertaken in the operation of the firm on a five-point Lickert scale ranging from "never use" (score 1) to "always use" (score 5).

Finally, business performance was measured in terms of annual sales, annual profits, number of employees, market share (local and international), and investment in the business. The respondents were asked to rate the *trends* for the above performance metrics over the last three years (2005 to 2007) on a five-point Likert scale ranging from "highly decreased" (score 1) to "highly increased" (score 5). All of the questions developed were closed-ended and multiple choice, and simply required ticking or circling the appropriate answer, thus minimising the completion time. The data collection started after employing a pilot study. Based on the findings of the pilot study, some minor changes in the questionnaire were made. The questionnaire was initially prepared in English, and it was later translated into Japanese and Sinhala.

The reliability of the business strategies and performance measures were evaluated and found to be acceptable, respectively, with a *Cronbach's alpha* of 0.73 and 0.84 for Japan and 0.84 and 0.94 for Sri Lanka. This self-administered questionnaire was sent by postal mail with a return stamped envelope to the owner-managers of SMEs in both countries in the middle of the 2008 fiscal year.

3.3 Data Analysis

In this study, for the purpose of achieving the main research objective and based on the nature of the data collected, non-parametric statistical techniques for data analysis were employed. Non-parametric techniques are ideal for this use because; the data were measured using nominal (categorical) and ordinal (ranked) scales, the distribution of the population scores was not normal, the violation of the assumption of homogeneity of variance. Therefore, a non-parametric technique, the chi-square independence test, was applied to measure the relationship between business strategies and business performance. The primary objective of the chi-square independence test is to determine whether two variables are related or not. The value was calculated using business strategies as the independent variable and various aspects of business performance, including elements such as annual sales, annual profits, number of employees, market share and

reinvestment into the business, as the dependent variables. The Pearson's chi-square value was calculated to determine the level of significance. In this test, if the calculated value (p) is less than 0.05, the relationship between two variables is significant. Statistical calculations were made using SPSS software⁶²⁾.

4. Results and Analysis

4.1 Sample Characteristics

A total of 231 SMEs in Japan and 224 SMEs in Sri Lanka responded to the survey. The response rate for the distributed questionnaire was 42% in Japan and 45% in Sri Lanka. Due to issues with incomplete data, 16 and 10 questionnaires from Japan and Sri Lanka, respectively, were disregarded. The remaining 215 in Japan and 214 in Sri Lanka were included in the data analysis. The characteristics of the two samples are presented in the following sections.

4.1.1 Owner-Manager Characteristics

As for the owner-manager characteristics of the samples from the two countries, their most important features are summarised in Table 1.

As shown in Table 1, over half of the Japanese owner-managers (55%) were over fifty years old, whereas 83.3% of managers were less than fifty one years old in Sri Lanka. This shows that, on average, owner-managers of SMEs in Japan are older than in Sri Lanka. Based on the data regarding educational qualifications in Japan, 66.8% of owner managers have obtained a university degree. In contrast, most of the owner-managers in Sri Lanka have only attained a high-school

Table 1: Owner-Manager Characteristics of SMEs

Owner-Manager Characteristic		Japan %	Sri Lanka %
Age (Years)	20–30	1.4	15.7
	31–40	15.2	28.7
	41–50	28.4	38.9
	51–60	30.8	15.7
	61–70	19.0	1.0
	Over 70	5.2	—
Education	Middle School	3.3	17.6
	Middle School	21.3	41.7
	High School	66.8	17.6
	University Graduate	4.8	—
	Professional	3.8	21.3
	Others	—	1.9
Experience	Yes	72.0	34.3
	No	28.0	65.7

Source: Survey data, 2008

level of education. This indicates a lower level of education among Sri Lankan managers than among the managers in Japan. Before entering the business, 72% of Japanese owner-managers had prior experience owning a similar business, while only 34.3% of managers had prior experience in Sri Lanka. In addition to the data in Table 1, we can note that in Japan, 96.2% of managers are males and 3.8% are females. In Sri Lanka, the percentages are 88% and 12% for males and females, respectively. Furthermore, 92.9% of managers are married in Japan, while this figure is 84.3% in Sri Lanka. The most important reason for entering the business in Japan is that the firm in question is a family business (70.4%), whereas

personal interest (41.7%) is most important in Sri Lanka. 74.8% of Japanese owner-managers' family members have owned a business, compared to only 25% in Sri Lanka.

4.1.2 Firm Characteristics

In terms of firm characteristics within the two countries, the most important features are summarised in Table 2.

As the table indicates, the majority of firms in the Japanese sample are older, as over 62% of SMEs are more than 41 years old. In contrast, half of the SMEs in Sri Lanka fall into the category of 11-20 years of operation. Interestingly, most of the firms in Japan operate as joint-stock corporations (84.7%), while in Sri Lanka, they operate as sole proprietorships (67.6%). One of the salient features of the majority of SMEs in both countries is that they employ fewer than 100 employees. These percentages are 78.5% of firms in Japan and 91.7% of firms in Sri Lanka.

In addition to considering the above data, we can also look to the fact that the major source of financing in Sri Lanka for these enterprises came from a mix of personal savings, family loans and bank loans (51.9%), while personal savings financed 45.8% of Japanese firms. Firms produced goods equally for local and international markets in Japan, whereas in Sri Lanka, 82.4% of production was for the local market. Presently, 42.7% of firms in Japan and 36.1% of firms in Sri Lanka operate as family businesses, while the others are non-family businesses. Most firms in both countries have two to five managers each who operate these organisations.

Furthermore, Table 3 shows the categories of industries with which the SMEs within the two samples were involved. It shows that the majority of firms in Japan operated in fab-

Table 2: Firm Characteristics of SMEs

Firm Characteristic		Japan %	Sri Lanka %
Age (Years)	Not more than 4	1.9	12.0
	5–10	4.2	28.7
	11–20	3.7	50.0
	21–30	8.8	7.4
	31–40	19.1	0.9
	More than 41	62.3	0.9
Legal Form	Sole Proprietorship	2.3	67.6
	Partnership	0.5	0.9
	Limited company	2.3	24.1
	Join Stock	84.7	7.4
	Corporation	10.2	—
	Other	—	—
No. of Employees	Less than 9	21.5	34.3
	10–19	14.0	12.0
	20–49	23.8	27.8
	50–99	19.2	17.6
	100–250	17.3	7.4
	250–300	4.2	0.9

Source: Survey data, 2008

Table 3: Involved Industry of the Sample in Japan and Sri Lanka

Industry	No. of Firms %	
	Japan	Sri Lanka
Food and Beverages	6.5	11.1
Textile and Wearing Apparel	5.1	14.8
Furniture, Fixtures and Lumber and Wood	5.6	11.1
Paper, Printing, and Allied Products	7.4	6.5
Chemical, Petroleum, Rubber and Plastics Products	12.1	13.9
Leather	3.7	3.7
Ceramics, Stone, Clay, Glass, Concrete Products	4.2	4.6
Fabricated and Metal Products	19.5	10.2
Machinery (general, precision machines and others)	13.5	1.0
Electronic and Electric and Electrical Equipments	4.2	8.3
Automobile Parts (Motor Car)	7.0	0.9
Welding	—	1.9
Miscellaneous	11.2	12.0
Total	100.0	100.0

Source: Survey data, 2008

ricated and metal products (19.5%) and machinery (13.5%) industries. In Sri Lanka, most firms produced textiles and apparel (14.8%) or chemical, petroleum, rubber and plastics products (13.9%) industries.

4.2 Business Strategies of SMEs

Responses for the items related to measure business strategies of SMEs in Part three of the questionnaire is presented as mean scores (\bar{x}) and standard deviation(s) values for each strategy item with the following Table 4 for both samples in Japan and Sri Lanka.

As mentioned in section 2.3, twenty-five strategy items are developed in five major business functional areas related with finance, production, HRM, marketing and R&D. According to the above table, under the finance strategies, the highest mean score in the sample from Japan records 3.62 with the strategy item of reinvestment of earned profits, whereas in Sri Lanka, the highest mean score is for searching for cheaper

sources of finance ($\bar{x} = 4.08$). It implies that these two strategies are commonly used in the respective country's SMEs. On the other hand, the lowest mean 2.68, related to maintaining large cash balances in the Sri Lankan sample, indicates that this strategic activity is rarely followed by firms. Except for this, other strategic items in the functional area of finance in both countries are being used by the firms, as all means recorded more than 3.5.

Items 5 to 9 are included in production strategies which are more important in the manufacturing industry. Based on the calculated mean values, in both samples, the similar feature which can be seen is that the highest mean is related with the strategy item of emphasizing product quality (4.46 in Japan and 4.36 in Sri Lanka). Furthermore, it is apparent that all production strategies are rated over 3.7 in both countries.

Items 10 to 15 are related with the firm's HRM strategies. Under this, the calculated means show that the highest mean score in the two samples is on emphasizing employee pro-

Table 4: Mean Scores for Business Strategies of Manufacturing SMEs in Japan and Sri Lanka

Strategy Item	Japan		Sri Lanka	
	\bar{x}	s	\bar{x}	s
Finance				
Use of outside borrowed funds	3.45	1.100	3.55	1.212
Search for cheaper sources of finance	3.51	1.027	4.08	0.921
Reinvestment of earned profits	3.62	0.927	3.92	0.879
Maintaining large cash balances	3.51	0.738	2.68	0.905
Production				
Changing or reinvesting production methods	3.72	0.785	3.81	0.980
Improving existing products to meet changing customer needs	4.06	0.736	4.08	0.750
Developing new products	3.93	0.921	4.03	0.756
Emphasizing product quality	4.46	2.796	4.36	0.601
Emphasizing cost reduction in all areas of the business.	4.01	0.764	4.18	0.669
HRM				
Involving employees in decision making	3.80	0.758	3.76	0.886
Using clear personal policies in reward and punishment of employees	3.41	0.775	3.42	0.881
Emphasizing employee welfare	3.71	0.692	3.98	0.741
Assessing employee performance	3.88	0.701	3.82	0.897
Assessing employee job satisfaction	3.78	0.717	4.05	0.755
Emphasizing employee productivity	3.92	0.660	4.13	0.713
Marketing				
Using brand name	3.29	1.082	3.84	1.078
Advertising products	3.21	0.987	3.11	1.211
Extending customer credits	4.15	0.693	3.45	1.013
Pricing products at market price	3.73	0.806	4.11	0.706
Emphasizing customer service	4.00	0.768	4.47	0.805
Selling products direct to end users	3.26	1.299	3.59	1.278
Selling through distribution channels	3.18	1.092	3.20	1.324
R&D				
Consulting technical experts	3.27	0.949	3.03	1.214
Taking part in activities related to trade or industry associations	3.56	0.894	2.86	1.092
Attempting to predict industry trends and acquiring knowledge of competitors' activities	3.78	0.783	3.97	0.781

\bar{x} = mean; s = standard deviation

Source: Survey data, 2008

ductivity (3.92 in Japan and 4.13 in Sri Lanka). However, it is clear, that the mean ranges of HRM strategy items in Japan (3.41 – 3.92) are lower than that in Sri Lanka (3.42 – 4.13). Standard deviation values in each item show that the deviation of mean in corresponding activities between the two samples does not show much variation.

Items 16 to 22 in the above Table 4 are considered the marketing strategies. The means illustrate that the highest mean is related with extending customer credits in Japan (4.15) and emphasizing customer service in Sri Lanka (4.47). This implies that SMEs in both samples place more emphasis on their customers. However, on the whole, means of all strategy items under marketing are not less than 3.10.

Items 23 to 25 are related with R&D strategies and the calculated means show that the highest mean is related with the strategy item of attempting to predict industry trends and acquiring knowledge of competitors' activities in both samples (3.78 in Japan and 3.97 in Sri Lanka).

Overall, from the calculated means and standard deviations for strategic items, one of the salient features which can be shown is that many of the highest means are related with the production strategy items in manufacturing SMEs in both countries. It implies that the majority of firms are more concerned about production strategies than the other business functions as the two samples are related with the manufacturing industry.

4.3 Relationship between Business Strategy and Performance of SMEs

For investigating the relationship between business strategy and business performance, two categories of business strategy namely proactive and reactive and five performance variables are considered. To determine whether there is a statistically significant relationship between strategy and performance, a chi square test is conducted separately,

for two groups of strategy; proactive and reactive with five performance measures. To categorise proactive and reactive strategies, means are calculated based on the rating scores given by the respondents to each activity. Within these means scores, a decision rule is applied to determine whether proactive or reactive strategies are followed by the owner-managers. High mean score (equal or more than 3.5) is considered for determining proactive strategies and low mean score (less than 3.5) is considered for reactive strategies.

The following Table 5 illustrates the results of the chi-square test related with two categories of strategy and change in annual sales of manufacturing SMEs in two countries.

The results indicate a significant relationship between business strategy and change in annual sales in Japan and Sri Lanka at a 5% level. More specifically, in Japan, 42.7% of owner-mangers of SMEs who apply reactive strategies shows a significant decrease (13.5%) or decrease (29.2%) in annual sales, while 23.6% (22.5% increase and 1.1% high increase) shows a similar increase in sales. With regard to the category of applying proactive strategies, the respective percentages are 23% (6.3 and 16.7) and 46% (38.1 and 7.9). Similar to this, in Sri Lanka, the category of 13.4% owner-managers who apply reactive strategies shows a high decrease (6.7) and decrease (6.7) in annual sales, and 73.7% (72 and 1.7) shows a similar increase in sales. For the category of proactive strategy, the respective percentages are 16.9% (3.9 and 13.0) and 75.3% (50 and 25.3). In sum, 23.6% of the SMEs in Japan and 73.7% in Sri Lanka with reactive strategies are able to increase in sales over the last three years, whereas 46% and 75.3% in Japan and Sri Lanka, respectively, have achieved similar increases in sales by applying proactive strategies. Apparently, these results suggest that using proactive strategies leads to a greater increase in sales in both Japan and Sri Lanka. On the other hand, if using reactive strategies, the levels of sales deteriorate in both countries in the case of using

Table 5: Relationship between Business Strategy and Annual Sales in SMEs in Japan^a and Sri Lanka^b

Strategy Type	Annual sales									
	Highly Decrease		Decrease		Neither Decrease nor increase		Increase		Highly Increase	
	J	SL	J	SL	J	SL	J	SL	J	SL
Proactive	8 6.3%	6 3.9%	21 16.7%	20 13.0%	39 31.0%	12 7.8%	48 38.1%	77 50.0%	10 7.9%	39 25.3%
Reactive	12 13.5%	4 6.7%	26 29.2%	4 6.7%	30 33.7%	6 10.0%	20 22.5%	45 72.0%	1 1.1%	1 1.7%

J = Japan; SL = Sri Lanka; a = χ^2 (4, N = 211) = 15.490, p = .004; b = χ^2 (4, N = 214) = 20.160, p = .000

Source: Survey data, 2008

reactive strategies.

Table 6 presents the chi-square test results of the relationship between business strategy and change in profits for both countries.

As shown in Table 6, the results depict a significant relationship between business strategy and change in profits in both samples. In the sample of Japan, as shown in the above table, 42.7% (5.6 and 37.1) of owner-managers of SMEs who follow reactive strategies indicate a high decrease or decrease in annual profits respectively, while 24.7% (23.6 and 1.1) show a similar increase in annual profits. Contrasting to this, the use of proactive strategy category shows a 26.2% (7.9 and 18.3) and 38.9% (33.3 and 5.6) of a fall and a rise of profits, respectively.

In Sri Lanka, Table 6 shows that 23.3% (8.3 and 15.0) of owner-managers of SMEs who are applying reactive strategies report a high decrease or decrease in profits, while 60.0% (58.3 and 1.7) report a similar increase in profits. With regard to the category of applying proactive strategies, these values are 18.3% (6 and 12.3) and 74.0% (64.3 and 9.7), respectively. In Sri Lanka, it is apparent that applying proactive strategies, 74.0% of SMEs can achieve an annual profits increment in the last three years, whereas 60.0% of SMEs that apply reactive strategies are also able to increase annual profits.

Therefore, comparing the two samples, it is shown that applying proactive strategies leads to an increase in annual profits of SMEs in both countries.

Next, the following Table 7 presents the results of a chi square test related to the categories of proactive and reactive strategy and change in number of employees in the two countries.

It shows a significant relationship between business strategy and number of employees in Sri Lanka at $p = 0.05$.

In the sample of Sri Lanka as in Table 7, it depicts that 15.0% (5.0 and 10.0) of SMEs by employing reactive strategies have achieved a high decrease or decrease in their number of employees, while 26.7% (21.7 and 5.0) have achieved a similar increase in the number of employees. In the category of proactive strategy, 15.5% of SMEs (4.5 and 11) have achieved a high decrease or decrease in the number of employees, while 55.2% (48.1 and 7.1) have achieved a similar increase in the number of employees to the business.

The above results suggest that applying proactive strategies affect the increase in the number of employees of SMEs in both countries, while it shows a non significant relationship in Japan. This is a vital difference between the two countries.

The following Table 8 presents the chi-square results between the business strategy and change of market share for

Table 6: Relationship between Business Strategy and Annual Profits of SMEs in Japan^a and Sri Lanka^b

Strategy Type	Annual Profits									
	Highly Decrease		Decrease		Neither Decrease nor increase		Increase		Highly Increase	
	J	SL	J	SL	J	SL	J	SL	J	SL
Proactive	10 7.9%	1 6%	23 18.3%	19 12.3%	44 34.9%	20 13.0%	42 33.3%	99 64.3%	7 5.6%	15 9.7%
Reactive	5 5.6%	5 8.3%	33 37.1%	9 15.0%	29 32.6%	10 16.7%	21 23.6%	35 58.3%	1 1.1%	1 1.7%

J = Japan; SL = Sri Lanka; a = $\chi^2 (4, N = 211) = 12.023, p = .01$; b = $\chi^2 (4, N = 214) = 13.752, p = .008$

Source; Survey data, 2008

Table 7: Relationship between Business Strategy and Number of Employees of SMEs in Japan^a and Sri Lanka^b

Strategy Type	Number of Employees									
	Highly Decrease		Decrease		Neither Decrease nor increase		Increase		Highly Increase	
	J	SL	J	SL	J	SL	J	SL	J	SL
Proactive	7 5.6%	7 4.5%	17 13.5%	17 11.0%	53 42.1%	45 29.2%	40 31.7%	74 48.1%	9 7.1%	11 7.1%
Reactive	7 8.0%	3 5.0%	16 18.2%	6 10.0%	44 50.0%	35 58.3%	17 19.3%	13 21.7%	4 4.5%	3 5.0%

J = Japan; SL = Sri Lanka; a = $\chi^2 (4, N = 211) = 5.495, p = .240$; b = $\chi^2 (4, N = 214) = 17.549, p = .002$

Source; Survey data, 2008

Japan and Sri Lanka.

The results depict a significant relationship between business strategy and change in market share in Japan. In Sri Lanka, this relationship is not statistically significant ($p > .05$). Furthermore, in Japan, 21.6% (2.3 and 19.3) of owner-managers of SMEs who follow reactive strategies report a high decrease or decrease in market share, while 15.9% (14.8 and 1.1) report an increase in market share. However, with respect to firms that follow proactive strategies, these percentages are 10.4% (0.8 and 9.6) and 36.0% (30.4 and 5.6), respectively. Therefore, it is evidenced that 15.9% of SMEs which apply reactive strategies are able to increase the market share over the last three years. Interestingly, this figure shows 36.0% of SMEs with respect to firms that applying proactive strategies.

On the other hand, in Sri Lanka, 10.0% (1.7 and 8.3) of SMEs that employ reactive strategies achieve a high decrease or decrease in market share, while 66.7% (60.0 and 6.7) achieve a similar increase in market share. 9.2% (3.3 and 5.9) of SMEs having a proactive strategy achieve a high decrease or decrease in market share, while 79.0 % (67.8 and 11.2) of SMEs achieve a similar increase in market share.

Comparing the results of the above analysis, it suggests that applying proactive strategies leads to greater increase in

market share of SMEs in Japan and Sri Lanka, although the relationship is statistically not significant in Sri Lanka. This is a remarkable difference between Japan and Sri Lanka.

Finally, Table 9 presents the results of the test related with the two categories of strategy type - proactive and reactive and reinvestment in the business.

The results of Table 9 illustrate a significant relationship ($P < 0.05$) between strategy type of proactive and reactive and reinvestment in the business in Japan. In short, in Japan, 31.9% (23.9 and 8.0) of the SMEs that follow reactive strategies are able to increase or highly increase reinvestment in the business over the last three years, whereas 52.4% (41.3 and 11.1) of SMEs which apply proactive strategies can achieve an increment in investment back into the business. The respective percentages in Sri Lanka are 84% and 84.4%. Though, it can be shown that applying proactive strategies leads to increase in the level of reinvestment into the business of SMEs in both countries, the relationship is statistically not significant in Sri Lanka.

The suggested view in the literature is that business strategies determine the performance of an enterprise. The situation revealed by this study is consistent with the findings of the studies conducted by Pearce and Robinson (1985), Olson and Bokor (1995), Smith (1967), Covin and Slevin (1986),

Table 8: Relationship between Business Strategy and Market Share of SMEs in Japan^a and Sri Lanka^b

Strategy Type	Market share									
	Highly Decrease		Decrease		Neither Decrease nor increase		Increase		Highly Increase	
	J	SL	J	SL	J	SL	J	SL	J	SL
Proactive	1 0.8%	5 3.3%	12 9.6%	9 5.9%	67 53.6%	18 11.8%	38 30.4%	103 67.8%	7 5.6%	17 11.2%
Reactive	2 2.3%	1 1.7%	17 19.3%	5 8.3%	55 62.5%	14 23.3%	13 14.8%	36 60.0%	1 1.1%	4 6.7%

J = Japan; SL = Sri Lanka; a = $\chi^2 (4, N = 211) = 13.099$, $p = .011$; b = $\chi^2 (4, N = 214) = 5.824$, $p = .213$

Source: Survey data, 2008

Table 9: Relationship between Business Strategy and Reinvestment to the Business of SMEs in Japan^a and Sri Lanka^b

Strategy Type	Reinvestment to the Business									
	Highly Decrease		Decrease		Neither Decrease nor increase		Increase		Highly Increase	
	J	SL	J	SL	J	SL	J	SL	J	SL
Proactive	5 4.0%	5 3.2%	8 6.3%	9 5.8%	47 37.3%	10 6.5%	52 41.3%	112 72.7%	14 11.1%	18 11.7%
Reactive	6 6.8%	1 1.7%	13 14.8%	7 11.7%	41 46.6%	1 1.7%	21 23.9%	48 80.0%	7 8.0%	3 4.0%

J = Japan; SL = Sri Lanka; a = $\chi^2 (4, N = 211) = 10.780$, $p = .029$; b = $\chi^2 (4, N = 214) = 5.573$, $p = .160$

Source: Survey data, 2008

Covin (1991), and Chell, Haworth and Brearley (1991)^{4,5,6,7,8,9}. However, in comparing the two countries, the findings related to each performance variable indicates some similarities and differences. The findings on relationship between strategy and annual sales and profits have a positive and significant relationship in both countries. It implies that functional level strategies; financial, production, HRM, marketing and R&D directly impact on the increase in sales and profits in manufacturing SMEs in Japan and Sri Lanka. But the finding on the relationship between strategy and the number of employees is rather surprising in the case of Japan. In Japan, strategies do not affect the number of employees. This is a remarkable difference between the two countries. The reason for this situation may be less job security, low salary, fewer welfare facilities, which may have an influence other than that of strategies, compared to large enterprises in Japan. But there is no prior research evidence to prove it. Therefore, this implies further research is needed to investigate this situation. On the other hand, the other dissimilarity between the two countries is that there is a strong positive influence of strategies on market share and reinvestment to the business in Japan, whereas in Sri Lanka, strategy does not affect this. The reasons for this situation may be the prevailing civil war during the last three decades, which created an uncertain environment and less business security in the country of Sri Lanka. At the same time, the major reason for increasing market share in Japan may be more related to production strategies, particularly, the high quality concerned and technology improves sales and widens the market more than that of Sri Lanka.

Furthermore, the literature shows that strategies which result in high performance are identified with activities associated with emphasis on product quality, product and service innovations, development of new operating technologies, emphasis on customer service and support, extensive advertising, and use of external finance and discovery of new markets^{21,52,8}. Some of these findings are also evidenced by current study revealing that most important strategic activities are derived from functional level strategies. The analyzed data reveals that in both samples, as overall, proactive strategies tend to increase in performance of manufacturing SMEs which is consistent with the studies done by Kotey and Meredith (1997)² and Covin (1991)⁸. Particularly, it indicates that there is a strong positive impact of proactive strategies on increasing business performance in terms of sales and profits in the two countries. A proactive strategic approach emphasizes more such activities as: searching for cheaper sources of finance,

changing production methods, developing new products, product quality, employee productivity, advertising, customer credits and customer service, which improves the sales and profits in manufacturing firms. This is also supported by the ideas provided by Covin (1991)⁸.

5. Conclusions

This study has achieved its purpose of filling the research gap and examining the relationship between strategy and performance of SMEs operating in an Asian context. Though, there have been certain limitations, important conclusions are drawn from the study which could provide some useful insights to owners and managers of SMEs. Overall, the main conclusion drawn from the study is that business strategies (proactive strategies) and performance of manufacturing SMEs in Japan and Sri Lanka are empirically related. In addition, based on the each finding of performance variables, the conclusion drawn is that there is a positive significant relationship between business strategy and sales and profits in both countries. Furthermore, business strategy and number of employees in Sri Lanka, business strategy and market share and reinvestment in the business in Japan. These findings reveal some similarities and differences between the two countries. Particularly, the findings also suggest that applying proactive strategies leads to a greater increase in annual sales, annual profits, the number of employees, market share and reinvestment into the business than that of applying reactive strategies of manufacturing SMEs in Japan and Sri Lanka. This is consistent with past studies which have been done in the western context.

This study also indicated that among all other business functional level strategies, production strategies are the most crucial to the manufacturing SMEs in Japan and Sri Lanka. Furthermore, the analysed business strategic activities conclude that emphasising product quality and customer service and acquiring knowledge of competitors' activities are the most important strategic activities for both countries. In addition, reinvestment of earned profits and assessing employee performance in Japan and search for sources of finance and emphasizing employee productivity in Sri Lanka are also vital for SMEs.

The results of this study must be interpreted in the light of obvious limitations. One limitation is that constrained by the vastness of the SME sector in both countries and the

limited time available. This study was confined to SMEs in the manufacturing industry only. Nevertheless, the results were also subject to the limitations commonly associated with questionnaire method and all mail surveys with respect to the reliability and accuracy of information. Particularly, it is noted here, in 2008 a global financial crisis occurred and it drastically affected some aspects of the SME sector.

In view of the fact that there has been no prior comparative research that has examined the business strategies and business performance among SMEs in the Asian context, the findings of the study provide an indication of possible directions for future research. First, it must be emphasised that, as the present study revealed, there are some important results and some similarities and differences of SMEs in developed and developing economies in the Asian context. Future research must investigate the same relationships in more Asian countries to generalize the findings.

On the other hand, because this study was confined to the manufacturing industry, further research should be done to replicate the above findings, employing wider coverage including other industries. The same study can also be carried out to see how the financial crisis affected the results. Another prospect for further research lies in the need to develop more tools for measuring key variables of business strategy and business performance and validate the same relationships which are investigated in this study. Furthermore, this study focused only on the influence of business strategies on the business performance of SMEs. But there are some other factors which influence performance. Hence, a detailed study considering all these factors would provide an insight to determine the most crucial factors that influence the performance of SMEs. Finally, it would be worthwhile to investigate the rational behind the existence of a non significant relationship between strategy and the number of employees of SMEs in Japan.

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SOCIO-ECONOMIC DETERMINANTS AFFECTING THE DEMAND FOR CHILDREN: THE PERVASIVE SENSE OF CRISIS IN JAPAN

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Abstract

Japan's fertility rate has changed dramatically, and the current Total Fertility Rate (TFR) is one of the lowest among developed countries. This pervasive sense of crisis has alarmed Japan's policy makers. The Japanese government is worried for its own future because of the likely impact on tax revenues and social benefits, since the population pyramid predicts more retirees than productive workers in the near future. The purpose of this paper therefore is to discuss socio-economic variables, which appear to be some important determinants leading to the low fertility rate, while analyzing relations between the demographic change and child-rearing strategies in Japan. It further examines Japanese women's social conditions in the era of globalization. Through the consideration of Japan's low-birth rate phenomenon, this paper suggests the commonalities of some Asian countries on child-rearing strategies from both sociological and gender perspectives.

KEY WORDS : Low fertility, Childcare, Female Labour

1. INTRODUCTION: Decline of Birth Rate and Social Change

Japan's population component has changed dramatically, and the current Total Fertility Rate (TFR) is one of the lowest among developed countries.

Since the 1990s, the decline of the birth rate has become a social issue in Japan, and is widely known as the "*Shoshika*" issue. "*Shoshika*" literally and generally means the small number of children, and since the 1990s, the Japanese government has started various "*Shoshika*" policies to deal with this issue.

Even though the birth rate has been decreasing, and reached 1.25 in 2005, the ratio has slightly recovered to 1.34 in 2007. However Japan still has a low fertility rate and is facing a hyper-aging society.

In this paper, I would like to discuss the socio-economic variables which appear to be some important determinants leading to the low fertility rate, while analyzing the relations between demographic change and child-rearing strategies in Japan.

First, this paper shows the trend of the fertility rate, and

secondly, examines Japan's TFR trends while considering the sociological reasons for the fall of the fertility rate after World War II.

2. Trend of the Total Fertility Rate

(1) Fertility Rate: World Trends

The total fertility rate (TFR) defined as the average number of children to be born to a woman who goes through her reproductive ages according to the age-specific birth rates.

Based on the UN Demographic Yearbook (data of 2006), the TFRs of almost all Western developed countries, except the USA (2.1) are lower than the replacement level. Italy (1.35) and Germany (1.33) are at a similar level to Japan, and much lower than France (1.98), Sweden (1.85) and Norway (1.90). In the case of Italy and Germany, it is said that the high unemployment rates among young people is one of the main causes of their low fertility rates. Furthermore, it is well known that the trend of having children out of marriage and non-discrimination against single mothers and so-called "illegitimate children" affected the fertility behavior of women in Scandinavia and France.

When we look at Asia, the fertility trend has changed dramatically, and some Asian countries and regions, for instance Hong Kong (0.95), Korea (1.14) and Singapore (1.32), the TFR is lower than Japan (UN Demographic Yearbook 2006). In addition, in China, the country is well known for its one child per family policy, the TFR (1.7) is higher than Japan.

This shows that among Asian countries, Japan's birth rate declined very rapidly and the TFR reached its lowest-low level earlier than others. When we consider the reasons affecting declining birth rate, including the changes of women's reproductive consciousness and female labour, it suggests the prospect of the transformation of the family, women and societies in Asia.

(2) Population pyramid in Japan

The Statistics Bureau of Japan (SBJ) detailed the population pyramid in Japan. The population group aged 0 to 14 (child population) numbered 17,176 thousand and accounted for 13.5 percent of the total population. On the other hand, the population group aged 15 to 64 (productive-age population) numbered 82,300 thousand and accounted for 64.5 percent

of the total population, which shows a decrease of 0.5 points compared to the previous year.

The population group aged 65 and over (aged population) numbered 28,216 thousand and accounted for 22.1 percent of the total population, an increase of 0.6 points, which was the record-high rate since 1950. By 2025, there will be roughly one elderly person for every two persons of working age in Japan.

Not only Japan but also many developed countries face the problem of a low birth rate and aging societies, however, one of the key characteristics of the Japanese case is that the speed of change was so fast when compared to other countries and regions.

The extremely low fertility results in a rapidly aging population, a decline in the working age population, and a sharp increase in the dependency ratio. Such demographic changes would cause many serious problems including a crisis of public pension system, labor shortages, economic recession, and loss of societal vitality.

Fertility is a complicated phenomenon and it cannot be



Figure 1 Population Pyramid in Japan

Source: Statistics Bureau of Japan (SBJ) 2009

explained by only one variable in isolation from the inter-relationships with other socio-economic factors. Therefore it should be examined not only from an economic approach, but also from a variety of disciplines including demography, sociology, women's studies, etc.

3. Trends of Fertility Behavior and Socio-economic Reasons; Japan's Case

(1) Strategic Changes During 1945-60s

This paper follows the trend of declining birth rate in Japan, and mainly focuses on Japan's demographic changes or transitions, which mirror the social changes, and peoples' consciousness of having children.

Figure 2 shows the main episodes of the TFR trend in Japan since 1947. It shows the TFR was 4.54 during the first baby boom period after the end of the war (1947 to 1949). However, this figure fell rapidly after that point, hitting 2.04 a decade later in 1957.

Here, we examine some of the key reasons affecting the rapid decline in the birth rate after World War II, especially after the baby-boom period.

Japanese society has changed dramatically after the war.

Politically, the *ie*-system (patriarchal family system) was abolished and replaced by a new Civil Code. Economically, Japanese people suffered with poverty after the defeat, however, soon after, rapid economic growth began in the mid-1950s.

The socio-economic reasons affecting the birth rates were industrialization, urbanization, the modernization of life-styles, and the change in the meaning of children for each family. After the end of starvation just after the war, Japanese people began to improve their living standard. The secondary and tertiary industries developed rapidly, which affected parents' and couples' family strategies towards providing higher education opportunities for their children to offer them good employment in an industrial society. Parents and couples "spontaneously" thought that having fewer children was the best way to give and invest their children more opportunity and education.

In addition, national population control related birth control changed after World War II. During the war, abortion was illegal and even birth control was strictly limited because of the Nation Policy of the "More babies, More population" ideology to increase the nation's power.

On the contrary, in 1948, the Eugenic Protection Law was enacted, and the control of unwanted births was made possible by abortion. Before contraceptive behavior became widespread, it is estimated that the effect of regulating fertility

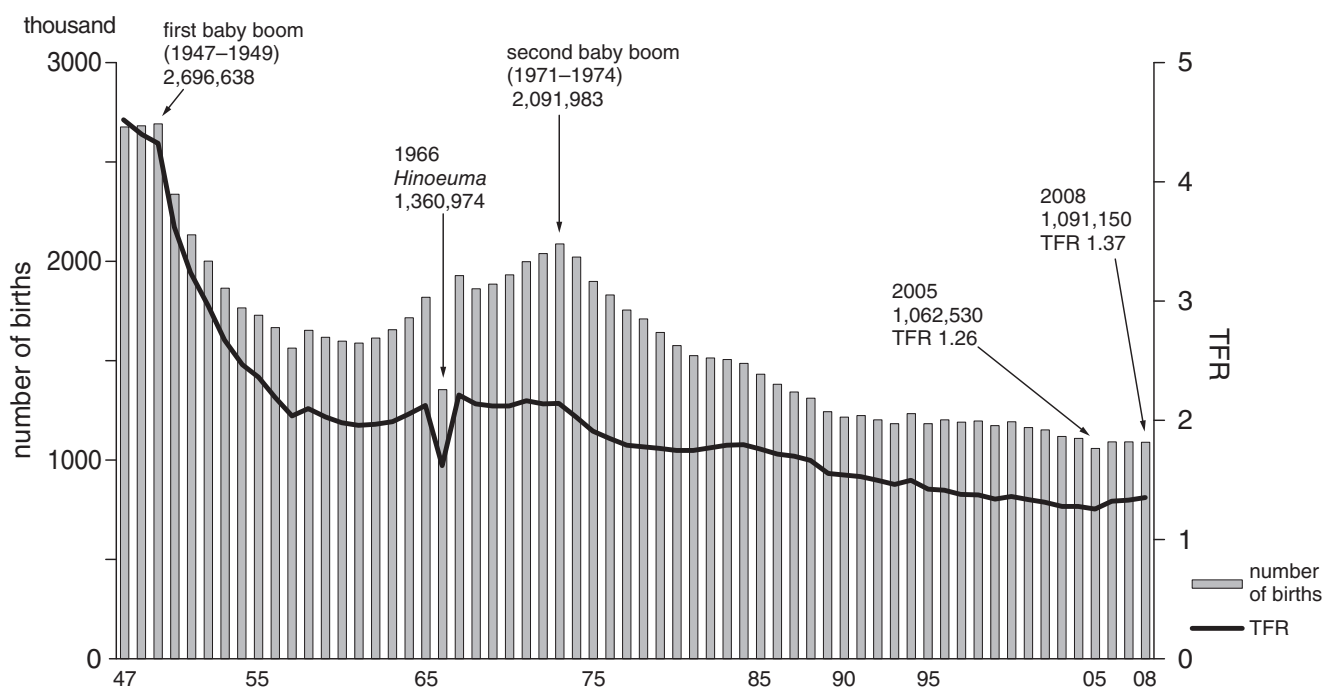


Figure 2 Trend of the Fertility Rates in Japan 1947-2008
Source: Ministry of Health, Labour and Welfare, 2009

by contraception surpassed that of induced abortion by around 1960 (Atoh 2008).

(2) Demographic Transition Theories

The classic 'demographic transition theory' postulates that the modernization process including industrialization, urbanization and secularization first brings about mortality decline followed by fertility decline. This theory posits a long-run equilibrium in which fertility rates are similar to mortality rates and population growth is zero. This is clearly not consistent with the trend to a very low fertility in Japan and most other industrialized countries over the past 30–40 years.

The theory of a 'second demographic transition' formulated by European demographers seeks to explain this inconsistency, but does not appear to fit the experiences of Japan and other East Asian countries very well. The rational choice framework associated with neoclassical economics provides a compelling explanation for the universal relationship between industrialization and lower fertility, but does not explain fertility variation.

Studies of the impact of fertility are complicated by the endogenous nature of fertility and the resulting difficulty in identifying the direction of causality (Browning 1992).

(3) Late Marriage and Late Delivery; Fertility Behavior of Women after the 1970s

Between 1957 and 1973, the TFR stabilized at about 2.1 births per woman. After this stable replacement level period, the fertility rate of Japan has been declining, and in 1990, the total fertility rate (TFR) of the previous year was reported as 1.57. This was one of the popular topics in the mass media, and they named it the "1.57 shock", because that TFR was lower than the rate of 1.58, in 1966, in the year of *Hinoeuma*, which was believed to be a bad year for giving birth to a girl baby.

The main reasons for the declining birth rate after the 1970s and 80s can be identified as late marriage and late delivery, and the changing values of marriage, work, and division of labour for Japanese women. Here, these reasons are discussed in more detail.

- ① Remarkable educational gains by women. The proportion of women of the relevant age enrolled into tertiary education increased from 5 percent in 1955 to 50 percent in 2005.
- ② In Japan, the relation between marriage and having a child is strong, and the late marriage phenomenon directly affects late babies. In addition, the disappearance of the arranged marriage system affected the

difficulties of finding partners among young people by themselves.

- ③ Massive increases in the proportion of women who work outside of the home. Women's consciousness on the sexual division of labour had changed and many women tried to continue their careers.
- ④ On the other hand, Japan is well known as a gendered society, and the female labour participation late curve is still the so called "M-curve", which is a symbolic phenomenon of Japanese female labour conditions. Many women have to leave companies when they decide to get married, having children or taking care of small children at home, so quite a lot of Japanese women aged in their late 20's to early 30's leave the labour market, and participation rates on those age categories decrease. The trade-off between work and family life is one of the main causes of declining fertility, and the "M-curve" reflects the continuing sexual division of labour in Japanese society.

4. Female Labour and Fertility Trend; Comparative Perspective

We also need to consider the Changes of Reproductive Strategies in Japan.

OECD data shows some important characteristics of female labour and fertility behaviour. In 1980, the correlation between the female labour participation rate (FLPR) and the total fertility rate (TFR) had a negative correlation (where countries with higher FLPR had lower TFR), and in 2005, it changed to a positive figure which means where countries with a higher FLPR have a higher TFR. Since the 1970s and 80s, worldwide movements for the improvement of the status of women, and women's participation in the public sphere became obvious and natural. In the field of labour, the glass ceiling issue became a social issue in some countries, which reflected gender equal employment and promotion and has become recognized in developed countries.

On the other hand, Japan and Korea, as we see in Figure 3, are good examples of countries with a lower FLPR and a lower TFR (OECD 2007). Both countries are well known for their strong sexual division in the labour system and M-Curve Labour participation rates for women which continue into the present.

There is another trade-off phenomenon, related to child-rearing especially child education expenditure.

As Figure 4 shows, when we look at the expenditure on educational institutions as a percentage of GDP (in 2005), the Japanese figure is lower than the OECD average (OECD 2008).

Not only Japan but also some of the East Asian countries and regions, such as Korea and Taiwan, spend less public money on child education, which means each family's has an increased responsibility for spending on education. As a result, "the less number of children, the larger spend on each child" strategy would be widely shared among modern families.

5. The Impacts of Globalization and Female Labour

At the forefront of a fledging global economy, the structural changes in the labour market that resulted in economic pressure and constraints imposed on young working women. As a result, married couples show more individualistic orientation that places marriage and childbearing at a lower priority than work and self-fulfillment in one's life.

Global trade and investment patterns are having a dramatic impact on employment relations and work arrangements

around the world. The impact can be both negative and positive and differs by context, by industry and trade, and by employment status. The spread of global value chains has created a new level of fluidity in the international economy that appears to be having a profound impact on the quantity and quality of jobs generated throughout the world.

Many scholars argue that globalization has led to flexible labour market arrangements. This may be a result of increasing globalization in manufacturing and industry, where the rigors of competition have made wage and labour costs more important in determining the location of firms and the mode of production. The global outsourcing and mega competition has raised uncertainty in these societies through the downsizing of employment. People tend to choose risk-averse decision-making in each stage of their life-cycle, such as marriage and having a baby, and this tendency will strengthen when society does not provide an adequate safety net.

Due to market uncertainty, firms reduce their core workforce and rely increasingly on irregular forms of employment. The so-called "*Flexibilization of employment*" shifts many of the costs of market volatility onto workers. Labour market liberalization and flexibilization have been means to increase the

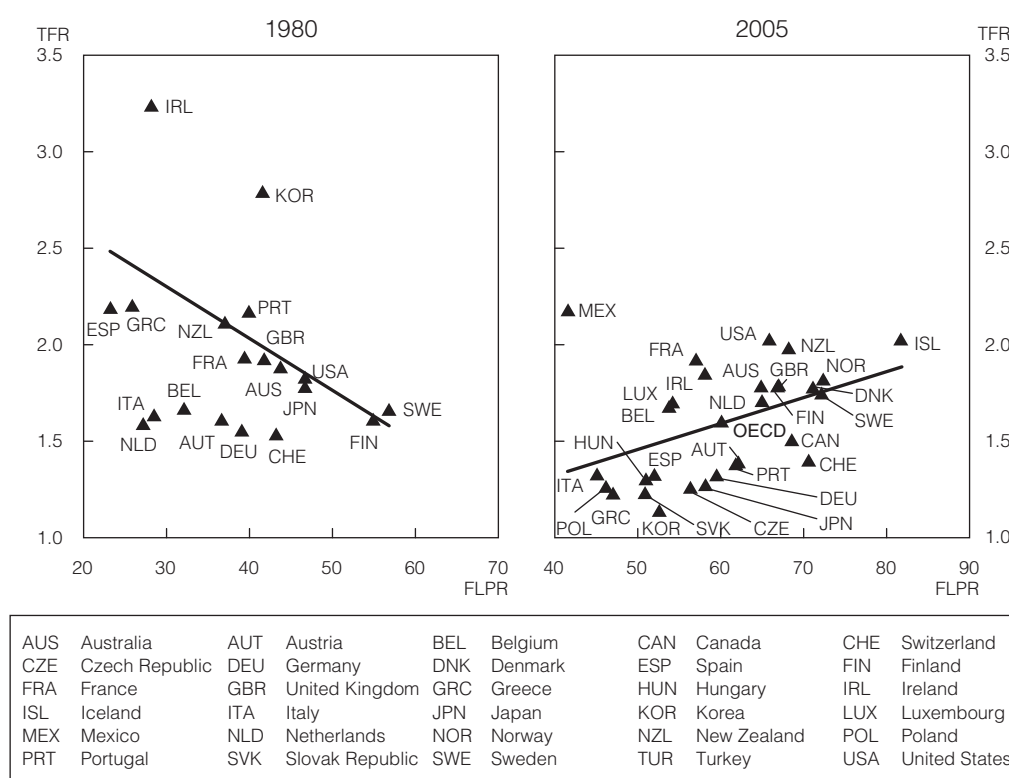


Figure 3 Female Labour Participation Rate and Total Fertility Rate; International comparison
Source: OECD 2007, *Babies and Bosses-Reconciling Work and Family*

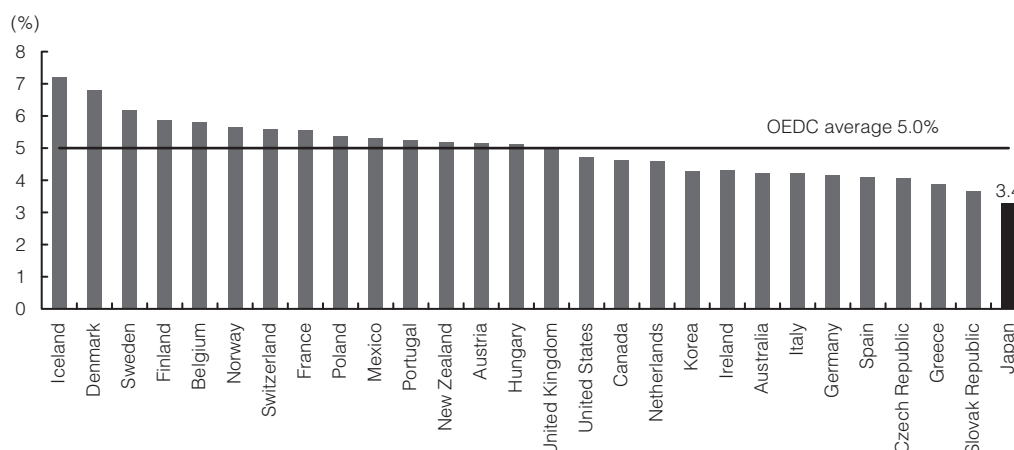


Figure 4 Public Expenditure on Educational Institutions as a Percentage of GDP (2005)

Source: Ministry of Education, Culture, Sports, Science and Technology, 2009 (OECD 2008 Education at a Glance)

ability of businesses to survive in the face of intensified competition world-wide. They decrease the relative tax burden, while shifting the costs of economic adjustment and change onto the most vulnerable, usually on to women.

Figure 5 shows the recent trend of percentage of “Irregular employees” by sex in Japan. It indicates that the percentage of irregular employees was 35.5%; a rise of 3.6 points compared to the 2002 figures, meaning more than one in three employees was an irregular employee. During the period of 1987 to 2007, the percentage for males rose from 9.1% to 19.9% and reached approximately 20%, while the percentage for females rose from 37.1% to 55.2%; exceeding 50%.

Flexible and unstable employment reflects late marriage. The declining marriage rate and rising marrying age in recent

years are related to declining fertility rate. The mean age of first marriage was 30.2 for men and 28.2 for women in 2008, a rise by 1.7 year and 2.7 years, respectively over the past twenty years. The ratio of never-married male and female aged 25-29 was 71.4% and 59.0%, respectively. It was 2.1 and 5.0 percentage points higher compared with 2000. The ratio of never-married male and female aged 30-34 had risen by 4.2 percentage points and 5.4 percentage points to 47.1% and 32.0%, respectively, compared with 2000. Then, the ratio of never-married male and female aged 35-39 was 30.0% and 18.4%, respectively, rising by 4.3 and 4.6 percentage points (Statistics Bureau of Japan 2009).

6. “Shoshika” Policy, for What and for Whom

As we mentioned above, in the 1990s, Japanese government started the “Shoshika” Policy and measures for the purpose of stopping the “crisis” of “Shoshika”. The main reasons for the pervasive crisis for the government and policy makers are the coming of a hyper-aged and depopulating society.

After the 1990s, the Japanese government undertook child-related policies to increase the birth rate, such as the Childcare Leave Law (1992), the Angel Plan (1994), the New Angel Plan (2000), the campaign of promoting fathers’ participation in childcare by the Ministry of Health and Welfare (1999).

In 2003, two child-related laws have passed the Diet, one is the Basic Law on Measure for the Society with Declining Birth Rate, and the other is the Law Promoting Measures for Supporting Nurturing the Next Generation. We are not sure whether these laws will affect the fertility rate in the future,

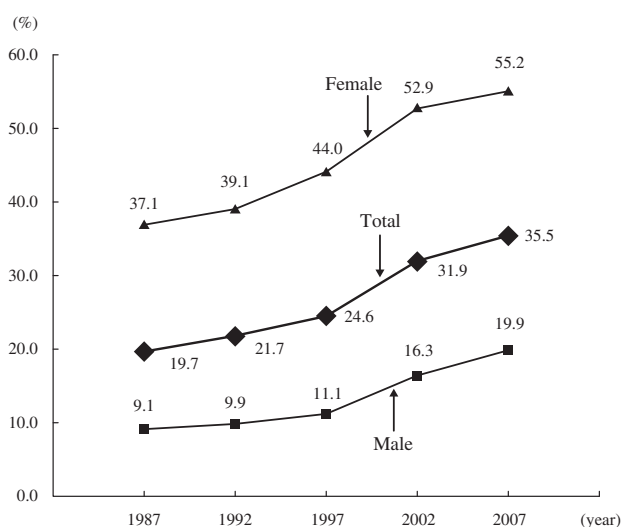


Figure 5 Trend of percentage of “Irregular employees” by sex

Source: Statistical Abstract 2009, SBJ

however, it will be clear that fertility control, whether it is tacit control or not, is considered as the nation-scale strategy to solve the crisis for the nation, and the children are expected to be savers to solve such problems as pension reform, the declining workforce, slow economic growth, care for the elderly (Tendo 2008).

It is important to take measures and policies to create a family-friendly and childcare friendly society. At the same time, as this paper discussed above, Japanese society has the characteristics of the women's life-choice difficulty, the trade-off between paid work and family or life care. We need to remember that having the choice, having children is a woman's right, a family right and of course, it is a human right.

NOTES

This paper is mainly written by M. Tendo, and S. Meewalaarachchi contributed Figures 1 and 5, and co-wrote parts of sections 3 and 5.

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Articles in Japanese:
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The Rise and Decline of Bond Funds and their Influence on the Corporate Bond Market

By Kuanju LIN[†]

[†] Aletheia University College of Finance and Economic

Abstract

Bond funds emerged in Taiwan in 1991. They were easier to raise than other funds because they had the integrated characteristics of “fixed income fund” and “money market fund”. The dull domestic stock market and the sharp decline of bank interest rate in 1996 brought up a massive influx of domestic funds from stock and financial market into bond funds, and the volume of the latter continued to grow after that. At the same time, the low interest rate caused the investments of the bond funds to shift from financial products such as bank deposit account to corporate bonds, the market of which received a great impact.

This paper will discuss and analyze the rise and decline of bond funds as well as their influence on the corporate bond market.

key words : Bond funds, corporate bonds

Flexibility of the Labor Market and the Countermeasures in South Korea — The Paradox of Neoliberalism —

By Kwangwook KIM[†]

[†] Meijo Asian Research Center, Meijo University

Abstract

Discussion in countries of neoliberalism is one of the concepts showing globalization is characterized by acceptance, resistance, and adjustment. In this research, it is aimed to check the working of adjustment looking back on the logic of the capital that has especially emphasized economic liberalization; while confirming how neoliberalism has taken hold in general in the society of South Korea as one of the countries in east Asia; and the labor side that has been resisting it.

To maintain labor flexibility to oppose the strong position of the labor unions and to reduce the labor costs, enterprises like non-regular workers. However, it is a factor that the sales scale and the gross profits of enterprises also influence and lower the productivity of labor to employ non-skilled, non-regular workers in case of requesting high skill levels of labor according to industry.

As a result, the meaning of neoliberalism that relates to globalization in South Korea is confirmed by efficiency, productivity. It is a urgent problem to build young, non-regular workers to secure the skill into educational training system in enterprises.

key words : neoliberalism, flexibility of labor market

Feeding characteristics and body dimensions of growing buffaloes raised by small-scale farms in Tarai, Nepal

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Abstract

Thirty small-scale farms that raised growing buffaloes in Tarai, Nepal were selected for the survey of feeding characteristics and body dimensions in the pasture-sufficient period, the pasture-decreasing period (PDP) and the fodder-shortage period (FSP). The mean feed supply of dry matter per metabolic bodyweight ($BW^{0.75}$) was highest in PDP. The average provision per $BW^{0.75}$ of crude protein, total digestible nutrients, calcium and phosphorus was lowest in FSP. The maximum of bodyweight (BW), body length, wither height, criss-cross height, heart girth (HG) and hips width (HW) of the buffaloes less than 24 months old reached to 200.0 kg, 109.8 cm, 113.2 cm, 115.0 cm, 140.0 cm and 37.0 cm, respectively. The following formulae to estimate BW (kg) in growing buffaloes were established using the multiple regression analyses (HG and HW, cm): The male BW = $1.27HG + 3.69HW - 135.19$. The female BW = $0.65HG + 5.33HW - 115.71$. The periods divided by the pasture environments induced the different feeding of nutrients. The nutrient supply in FSP was not enough for the maintenance requirement of buffaloes.

key words : body dimension, bodyweight, feeding characteristic, growing buffalo, Nepal

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Date of issue / March 31, 2010

Edit / Meijo Asian Research Center

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