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I Introduction

1

Well-Being During the Transition in Asia

Manuel F. Montes and Aiguo Lu

The transition processes in Asia have generally been declared to be models of success and the object of widespread celebration and admiration. The chapters in this volume evaluate the social and human impact of the Asian transition process, a subject that has so far only been analysed tangentially, on the presumption that positive growth rates must have had a positive impact on human welfare (World Bank 1996; Lavigne 1995). It is also important to recognize at the outset that not all Asian transitions have been associated with positive economic growth. Mongolia (ADB 1992) and the Central Asian Republics have seen drastic declines in output and employment.

Though there are indications of positive gains in a few countries and specific sectors, initial evidence from these economies points to significant increases in inequality, the erosion of social cohesion, and spread of anti-social activities. An analysis of the gains or deteriorations in human welfare and social cohesion in the Asian transition process is not just intellectual, but interrogates the meaning of the Asian story, whether successful or not, and throws light on the social sustainability of the process itself.¹

What are the channels by which positive growth rates translate into higher standards of living for the general population? Through more private provision of basic goods and services? Through more widespread public services made possible by an improvement in public finances? Whether economic growth has been positive or not, have there been significant budget cuts in the provision of health, education and other social services, and does this explain better the growth in private services? Has the experience proven the private provision of basic goods and services to be socially efficient? Are the benefits of growth shared equitably by the population? More specifically: to what

extent has growth or decline been dependent on increasing disparities in income and employment security? Can the unintended distortions of the reforms be corrected without jeopardizing the positive gains in growth and efficiency already achieved? Are there tradeoffs between transition reforms, equity and social welfare? If yes, are these unavoidable?

These are fundamental questions of development, which in this case are being raised in societies that are also undergoing widespread reassignments of property rights, employment arrangements, and the economic responsibilities of the private and the public sector.

Drèze and Sen (1989) distinguish between two types of successful development processes: (1) 'growth-mediated' and (2) 'support-led' processes. In 'growth-mediated' processes, the benefits of growth are broadly based and widely shared, while 'support-led' processes do not rely on growth but instead depend on high priority being given to providing social services. Pre-reform China and Sri Lanka, in spite of low per capita incomes, made enormous progress in promoting human development, approaching levels found in middle-income countries. Indices such as life expectancy at birth, infant mortality rates, women's status and literacy rates improved broadly and tremendously in these countries. The question of whether China's path was 'growth-mediated' or 'support-led' still requires resolving (Lu 1996). What is undeniable is that the nature of China's growth process has undergone a profound change and the question arises whether the gains in human development achieved in the past must now be sacrificed for faster economic growth.

Under the central planning system, achievements in human development in these countries were commonly greater than the level of economic development might have indicated. This pattern, however, no longer holds once the transition begins. Whether human development tends to suffer or not will depend not only on economic performance, but also on social policies. This research emphasizes the view that human welfare is the ultimate goal of transition, suggesting a need to move away from a one-sided focus on economic growth to a people-oriented approach.

There are at least two, or perhaps three, patterns of transition in Asia. These groupings are characterized by different initial conditions and contrasting processes of change.²

The first type of transition, best exemplified by China, has been led by state authorities and has involved a significant amount of experimentation/tentative reforms (Naughton 1995). The Chinese date the start of their transition from 1978, and Vietnam from 1986 with the

launching of the *Doi Moi* programme at the Sixth Party Congress of the Communist Party. These reforms began with experimentation in the introduction of economic incentives, especially in the rural areas, by authorities worried about the need to improve supply responses. These transitions have been launched in economies with a larger proportion of output in agriculture and with a considerable degree of decentralization. A common feature of these transitions, in terms of outcome, is that economic growth rates have remained positive during the process of change.

Vietnam might reasonably be counted in this first group because of economic decentralization and the importance of agriculture. Yet it had a foreign trade pattern that was highly integrated into the Council for Mutual Economic Assistance (CMEA). These transitions have enjoyed significant amounts of foreign direct investment flows. In terms of policy approach, the Vietnamese, unlike the Chinese, removed price controls quickly and, in 1989, carried out a drastic macroeconomic stabilization programme.

The second model of transition emerged in 1989 in economies with a greater degree of Soviet-style³ control of output and pattern of production/trade. These transitions share with the European transitions (and contrast with the Asian transition of the first type) the experience of drastic political change, even though the governments that have emerged continue to enjoy considerable political authority. In terms of initial conditions, these economies had higher per capita incomes and a larger dependence on an industrial sector, much of which would be made obsolete by price reform.

We count Mongolia, Kazakhstan and the Kyrgyz Republic in the second type. All of these economies undertook rapid price reform and achieved rapid macroeconomic stabilization. These economies incurred cumulative declines in economic activity in the order of 50 per cent between 1989 and 1995, though Mongolia's relatively smaller cumulative output loss of about 12 per cent is understandable in terms of its smaller industrial sector.

Turkmenistan and Uzbekistan possibly represent a third pattern of transition, which shares the initial conditions and rapid price reform with the second type but differs in the slower macroeconomic approach to stabilization, as a result of which cumulative output losses in these two economies have been about half those in the other Central Asian Republics. If the proposition is true that one can only delay macroeconomic adjustment but not reduce the amount of adjustment, then this third type is only a 'lagged version' of the second type.

All of these transitions, be they associated with positive growth or not, have involved privatization, wage liberalization and the reform of the social safety net.

The transition in Central and Eastern European countries has also witnessed large-scale and widespread deterioration in social conditions (UNICEF 1993, 1994, 1995; Milanovic 1998). The worsening in social development indicators has been commonly viewed as an inevitable consequence of the severe economic decline. The concurrence of the two processes seems to have provided strong support for this simple causality. One view is that social policies matter, but, compared with the severe impact of economic decline, the role of social policies is considered derivative or of secondary importance in the determination of welfare changes.

Before the transition to the market the centrally planned economies had demonstrated notable success in improving social conditions beyond what would have been expected at their per capita income levels. This raises doubts about the actual relationship between the economic and social changes during the transition. Moreover, if economic recession was indeed the main determinant of the deterioration in social conditions, is it the case that the economic growth in the more successful transitional economies has been automatically followed by rising living standards and improved human development? And if not, why not?

Studies of the welfare situation in the Asian transition economies (ATEs) are far less comprehensive than those undertaken on the Central and Eastern European countries (CEECs). This is at least partly due to the lack of systematic, reliable and comparable data. This study faces similar problems. It is based on existing studies, information and data, which are published by various sources and rely on different methods. As a result, cross-country comparisons using the available figures will not be highly reliable, but will be highly indicative of the larger picture of socioeconomic development in these countries.

Asian transition economies in this chapter refers to those Asian countries which were under a central planning system and which began to reform this system through the introduction of market mechanisms at various times, mostly since the late 1970s. These countries in this volume include China, Mongolia, Vietnam, and the Central Asian Republics of Kazakhstan, the Kyrgyz Republic, Uzbekistan and Turkmenistan. Mention needs to be made of the special treatment of North Korea. At the end of 2001, the Democratic People's Republic of Korea has yet to implement reform measures that would indicate an obvious shift towards socioeconomic transition.

This definition of the ATEs immediately makes it clear that there is no single, so-called 'Asian model', even if the basis were only post-reform economic performance. On many other counts, the ATEs are far from being homogeneous, for there is a great diversity, for example, in initial conditions both economically and in the social welfare system, in reform approaches, policy sequences, social consequences and so forth, not to mention the great differences in culture, geopolitics and history. In many respects, the diversity is greater among the ATEs than it is among the Central and Eastern European countries.

In terms of transitional strategies and performances, the Central Asian Republics and Mongolia appear to be closer to the European transition model rather than the 'Asian model', although these countries are located in Asia. However, this does not pose a problem in the current effort, since a definition of transition models is not the goal here.

On the other hand, in addition to geographical location, the ATEs do share some common socioeconomic features which set them apart from the European transitions. For example, the ATEs were and still are among the lower-income countries, for which development remains as crucial an issue as market transition.

1.1 The pre-reform economies and welfare and social policies

Compared with the European transition economies, the ATEs are poor or relatively poor developing countries. At the onset of reforms, income levels in most of the ATEs were generally lower than those in the transitional economies in Europe (Table 1.1).

Table 1.1 Per capita GNP of the ATEs before the reforms, current US\$

	1978		1990
China	230	Kazakhstan	2600
Vietnam	170	Kyrgyz Republic	1570
		Turkmenistan	1690
		Uzbekistan	1340
		Mongolia	780

Sources: Figures for Central Asia from Pomfret (1995), chapter 4; for the remaining countries, from World Bank (1980), pp. 110–11, and Mongolia estimated from the data in ADB (1992).

The figures are indicative of the presence of two groups. The East Asian group, which includes China and Vietnam, was among the poorest in the world in the late 1970s, at the time when China formally embarked on the road to reform. In the case of Vietnam, no radical improvement in per capita GNP took place between the late 1970s and the mid-1980s, when economic reforms were officially undertaken. The per capita income in these countries continues to be unquestionably lower than in other countries of interest. The Central Asian Republics and Mongolia were not as poor. On the eve of the transition, they ranked as low-to-middle-income countries. Among them, Mongolia was the poorest, as shown by the above figures, but its per capita GNP may actually have been lower still. For example, estimates put forward by others place the per capita GNP of Mongolia in the range of US\$522 to US\$880 in the late 1980s (see Kim 1996). In the early 1990s, when radical changes began to sweep the entire former Soviet bloc, the per capita GNP of Central Asia, with the exception of Kazakhstan, remained lower than that of all transitional economies in Central and Eastern Europe.

However, compared with most market economies at similar income levels, social development indicators pointed to a relatively good performance in all the ATEs before the transition. Because of the low or relatively low income levels, the pre-reform ATEs faced resource constraints in welfare provision. Especially in the poorest ATEs, per capita calorie intake, the access to consumer goods and quality housing, the consumption of public utilities and so on were low, and a relatively large proportion of the populations were poor. However, considering the available resources, people in the ATEs enjoyed a large amount of social protection. Poverty was widespread, but the income gap remained relatively narrow. Other important social development indicators, such as life expectancy and educational attainment, were generally more positive among the ATEs than they were in market economies with the same or even considerably higher per capita incomes.

China, the largest centrally planned economy among the ATEs, made considerable progress in social development in the first three decades after 1949. Measured by social indicators such as life expectancy, infant mortality and educational attainment, China forged way ahead of most market economies at similar income levels and surpassed a number of countries with per capita incomes many times greater. 'Analyses of anthropometric data and morbidity patterns confirm that China has achieved a remarkable transition in health and

nutrition' (Drèze and Sen 1989: 204). Many of the social indicators for China reached the average levels for middle-income countries. For instance, life expectancy at birth increased from less than 40 years at the beginning of the 1950s to approximately 65 years in 1978.

In the 1980s, the GNP per capita in Vietnam was lower than that in China in the late 1970s. Because of the country's overall poverty, there were chronic food shortages, and the population suffered from widespread malnutrition. The incidence of malnutrition, particularly as reflected in the height-for-age and weight-for-height indicators for children, confirms that the most serious health problem in Vietnam was the lack of adequate amounts of food (John Mellor Associates 1993; Fforde and de Vylder 1996). The level of well-being, as measured by calorie intake, consumption of goods, access to safe water and so forth, was low. However, indicators show that the health situation in the country had improved significantly during the decades since independence. Life expectancy reportedly rose from 42 years in 1960 to 59 years in 1983, and the infant mortality rate declined from 165 per 1000 live births in 1960 to somewhere between 35 and 64 in the mid-1980s. The people in Vietnam were living longer than were people in countries such as Algeria, Brazil, Iran and Peru, all of which had per capita incomes more than ten times greater than that of Vietnam (Fforde and de Vylder 1996: 234). Overall, the social development in Vietnam before the reforms was more like that in a middle-income country (for example, the Philippines) than that in a low-income country (see Table 1.2).

Table 1.2 Economic and social indicators for Vietnam

<i>Indicator</i>	<i>Value</i>
Population (millions)	70.9
GDP per capita (US\$)	220
Life expectancy at birth (years)	63
Infant mortality (per 1000 live births)	39
Adult literacy (%)	88
Urban population (%)	20
Population growth rate (%)	2.0

Sources: UN, World Bank and Asian Development Bank data for the most recent year (1990 for literacy, 1991 for mortality and life expectancy at birth and 1993 for other statistics) from Pomfret (1996), p. 61.

Mongolia, too, fared quite well in terms of social development, although the gap between the social development indicators and per capita income was not so wide. Before the transition, its per capita income ranked Mongolia among the lower-middle-income countries. Because of serious measurement problems, the size of Mongolia's GDP may have been overestimated (Pomfret 1996: 79). But even if Mongolia were classified as a lower-middle-income country, its human development record was quite favourable (Table 1.3).

Under the central planning system, Mongolia achieved significant improvements in the quality of life of its people. As Table 1.3 shows, the major social indicators were not only better than the average for all countries in the world, but they were also better than the average for the developed countries in some areas. Mongolia's achievement in education was especially pronounced and was far better than that of China. Eighty-nine per cent of all students had completed the eighth grade; 50 per cent had completed the tenth grade, and 16 per cent of the workforce had received higher education. With a per capita GDP that was not particularly high, Mongolia achieved a literacy rate of 97 per cent among the population above ten years of age. In 1990, it had 88.8 medical personnel and 119.5 hospital beds per 10 000 population. The nutritional standards were adequate and comparable with those in middle-income countries. Infant mortality (60.6 per 1000 live

Table 1.3 Human development indices

<i>Indices</i>	<i>Mongolia</i>	<i>All countries</i>	<i>LDC</i>	<i>DC</i>
Life expectancy at birth (1990)	62.5	62.8	50.7	65.5
Daily calories in % of requirement (1984–86)	116	107	89	113
Access to safe water in % of population (1985–88)	65	62	34	–
Primary and secondary school enrolment, % (1986–88)	95	70	41	78
Mean years of schooling (1980)	6.0	3.5	1.4	5.4
Female/male ratio in school enrolments (1980)	90	53	40	66
Female/male ratio in labour force (1988)	83	52	46	57
Per capita GNP (US\$, 1988)	880	710	230	3 410

Note: LDC = least developed countries; DC = developed countries.

Source: UNDP (1991), cited in Kim (1996), p. 316.

births) and maternal mortality (1.44 per 1000 live births) were high, but there had been substantial progress over the years (MRIM 1994, cited in Abeywickrama 1996: 27).

Although within the USSR they were the poorest republics, the Central Asian Republics had far higher per capita incomes than did the rest of the ATEs. For instance, if one sets per capita income in the USSR at 100, then the respective index in 1988 was 93 for Kazakhstan, 62 for Uzbekistan, 71 for Turkmenistan, and 72 for the Kyrgyz Republic (IMF et al. 1991: 231). Poverty in Central Asia was more pronounced compared to the USSR average. It was reported that in Uzbekistan, significant numbers of people were living in poverty during the Soviet era. According to a 1989 household survey, about 44 per cent of the population were living below the official Soviet poverty line, of which 16 per cent subsisted on incomes less than two-thirds of the value of the line.

However, compared to the East Asian transition economies, not to mention neighbouring countries such as Afghanistan, the Central Asian Republics had reached higher standards of human development (Table 1.4). Life expectancy had improved steadily. In Uzbekistan, for instance, life expectancy had risen since the 1970s from 67.3 to 69.8 years, running counter to the downward trend in Russia from 67 to 64 years over the same period. Infant mortality continued to improve, from 47 per 1000 live births in 1975 to 34.6 in 1990 and then to 26 in 1994. However, serious problems, such as high maternal mortality, persisted. In particular, the literacy rates and the levels of education were very high, largely as the result of the Soviet education and healthcare systems.

The experiences of the ATEs under the central planning system indicate that there was an obvious gap between economic level and social development that was clearly in favour of the latter. The degree of this general 'imbalance' may be roughly measured through a comparison of

Table 1.4 Human development indicators, Central Asia, 1990

<i>Country</i>	<i>Life expectancy</i>	<i>Adult literacy rate</i>	<i>Mean years of schooling</i>
Kazakhstan	68.8	93.0	5.0
Turkmenistan	66.4	93.0	5.0
Uzbekistan	69.5	93.0	5.0
Kyrgyz Republic	68.8	93.0	5.0

Source: UNDP (1993), pp. 135–6.

a country's ranking in the world in terms of economic development and its ranking in terms of social development. For example, at the end of the pre-reform period, China ranked as the 22nd poorest country in the world (World Bank 1980: 110–11), but, measured according to human development index (HDI) values in 1980, it ranked as the 51st country from the bottom in terms of human development. In addition, China was among the dozen or so countries in the world that moved from the low human development group in 1960 to the medium human development group in 1980.

For the discrepancy between per capita income and human development in other ATEs, the following information from the UNDP human development index provides a fairly comprehensive picture (Table 1.5).

The pre-transition discrepancy between income levels and social development was particularly pronounced for East Asian transitional economies. As in other centrally planned economies, the relatively good social development records in the ATEs were an outcome, first of all, of the official ideology, which emphasized that human development based on equitable income and welfare distribution was a development priority. Second, there was a strong support system and government policies to buttress the official commitment to social development. Education and health services were significantly better than in most other countries at similar income levels. Welfare systems were supported by nationwide institutional establishments, which not only functioned as agents to carry out welfare programmes, but also oversaw the relatively equal coverage of education, healthcare and other social services.

The progress in social development in the ATEs was achieved largely through state-sponsored social welfare measures. There were essentially two types of state-sponsored welfare provision: the Soviet type and the

Table 1.5 The GNP rank and the HDI rank of six countries

<i>Country</i>	<i>GNP rank</i>	<i>HDI rank</i>	<i>HDI rank minus GNP rank</i>
Vietnam	16	62	40 (1987)
Mongolia	96	100	4 (1990)
Kazakhstan	53	54	1 (1990)
Kyrgyz Republic	81	83	2 (1990)
Uzbekistan	68	80	12 (1990)
Turkmenistan	51	66	15 (1990)

Sources: UNDP (1990, 1993).

East Asian type. The Central Asian Republics were constituent parts of the Soviet Union, and welfare provision before independence was therefore a function of the overall Soviet welfare system. In the Soviet economies, full employment was largely guaranteed; education and healthcare services were free; lifetime pensions were granted to all employed persons, and women were offered virtually equal opportunities in employment. These provisions served as the foundation for the remarkable attainments in human development.

For the relatively low-income region of central Asia, resources from outside the region within the USSR played an important role in supporting this comprehensive welfare system. Although net inter-republic resource flows in the Former Soviet Union are difficult to disentangle, the Central Asian Republics are likely to have been net beneficiaries of the resource redistribution among the republics (Pomfret 1996: 91). Largely because of extensive state employment and the provision of various social benefits through enterprises and farms during the Soviet era, a sense of security was enjoyed by people in Central Asia. On the eve of the economic transition, these republics inherited a fairly well-developed Soviet system of social insurance and assorted social assistance measures.

Mongolia was known as the '16th republic' of the USSR because of its close political relations and high degree of economic integration in the Soviet system. Mongolia possessed a welfare system similar to that of the Soviet Republics, in which education and healthcare services were run by the state and provided free. Privately owned housing did not exist. Urban housing was owned and allocated by the state, and rural housing belonged to cooperatives. Utilities (electricity, heating and so on) were furnished with zero marginal charges. Public transport and food were heavily subsidized.

In the poorer East Asian transitional economies, the role of the state in welfare provision was not as comprehensive as it was in Central Asia and Mongolia. While the state normally took full responsibility for the welfare of employees in the state sector, the larger part of the population outside the state sector, that is, the rural population, was left out of state provision. Rural populations had to rely mainly on local resources and rural institutions, that is, the collective or cooperative organizations, for welfare support. Rural collective frameworks, such as the commune system in China and the agricultural cooperatives in Vietnam, were responsible for the satisfaction of the basic needs of their members through the mechanism of the sharing of resources within their respective administrative boundaries. Admittedly, welfare

coverage in the non-state sector was poorer in both quantity and quality than it was in the state sector, and this commonly resulted in less favourable welfare conditions among rural populations.

None the less, it ought to be remembered that the availability of the collectively sponsored welfare services, even at low coverage, made a great difference among low-income rural populations. Precisely because of the development of this organizational mechanism, the East Asian transitional economies were able to perform well in the area of human development, despite the agrarian nature of these societies before the reforms.

Unlike the Soviet type, the East Asian type of welfare provision, which combined direct provision by the state with collective sponsorship, worked to a great extent in a decentralized manner. The differences in access to resources between urban and rural areas, as well as among rural localities, contributed to the high degree of regional variation in social development. Nevertheless, judged by performance, the East Asian planned economies did relatively well in the utilization of natural and organizational resources to improve the well-being of their populations.

Despite these achievements, both the Soviet type and the East Asian type of welfare provision were not without problems. In general, the most serious and common problem was the severe resource constraint, which could not be relaxed as significantly as expected because of the inadequate economic growth. This was particularly true in the East Asian transitional economies, in which living standards remained low, and the efforts to eliminate widespread poverty were met with great difficulties. Given their resources, an important issue for Mongolia and Central Asia was the sustainability of the relatively comprehensive welfare coverage. This problem became more urgent and obvious after independence, when Soviet subsidies dried up as the result of the collapse of the USSR at the same time that inefficiencies and budget pressure were growing.

For all or some of the ATEs, the potential for further improvements in welfare was also limited because of such factors as inefficiencies in resource utilization, the lack of universal coverage, and the bureaucratization of welfare institutions. One of the basic lessons is that the relatively egalitarian income distribution and relatively advanced welfare services in the ATEs under the central planning system offset to a great extent the negative welfare impact of the relative economic backwardness of these countries, but could not be substitutes for the lack of dynamic economic growth.

1.2 Macroeconomic patterns of transition

The onset of the economic transition in the ATEs varied from country to country, as did the first initiatives in the new economic course. China was the pace-setter, inaugurating economic reform in 1978. Following a few years of spontaneous 'fence-breaking' and the relaxation of central control over the economy, Vietnam began official reform programmes in 1986.

In 1991, more than a decade after China's first reforms, strong external shocks were largely responsible for opening the way to a more radical economic transition in Central Asia and Mongolia. The sweeping changes in and the ultimate collapse of the Soviet Union left these countries no alternative but to modify immediately the economic and political structures so closely associated with the Soviet system.

For the East Asian transitional economies, the push for change came mainly from within. The accumulated problems of central planning, which resulted in the stagnation of income and less-than-satisfactory economic growth, propelled governments to adopt gradual yet far-reaching economic reforms.

The ATEs took diverse approaches towards reform, ranging from the so-called 'gradualism' or 'incrementalism' in China to the drastic 'revolution' in countries such as Mongolia. Transition is not merely a matter of economic change. In Central Asia and Mongolia, in particular, because of the sudden external shocks generated by the disintegration of the USSR, economic transition has had to proceed hand in hand with the reorganization of the state. The East Asian transitional economies, on the other hand, have managed to maintain political stability while pursuing reform. In all the ATEs the sociopolitical situation has been crucial in the formulation of transition strategies and in limiting the policy options available to governments.

1.2.1 Overall economic growth

With regard to economic performance, marked differences exist between the East Asian transitional economies on the one hand and Central Asia and Mongolia on the other (Table 1.6).⁴

The East Asian pattern of economic performance involves a combination of transformation and growth. China and Vietnam have witnessed the acceleration of economic growth since the early years of reform. In the nearly two decades since its first reforms, China has registered a tremendous 9 per cent annual growth rate. Vietnam has had a

Table 1.6 Estimates of real GDP growth rate, 1985–95, and per capita GNP, 1994

Country	1985–92 average*	GDP growth rate (%)			GNP per capita 1994 (US\$)
		1993	1994	1995	
China	9.6	13.5	11.8	10.2	530
Vietnam	4.9	8.1	8.8	9.5	190
Mongolia	0.8	-3.0	2.3	6.3	340
Kazakhstan	-14.9	-12.9	-25.4	-8.9	1100
Kyrgyz Republic	-15.9	-15.6	-26.5	-6.2	610
Uzbekistan	-6.1	-2.3	-3.4	-2.7	950

*Refers to 1986–92 for the Lao PDR and Vietnam and to 1992 for Kazakhstan, the Kyrgyz Republic and Uzbekistan.

Source: ADB (1996), p. 204.

slower start, but in the first half of the 1990s the GDP growth rate reached 8–9 per cent in that country.

Meanwhile, in Central Asia and, somewhat less applicably, Mongolia, radical transition measures have led to severe economic contraction, and there has been a substantial erosion in GDP and standards of living during the initial stages of the transition. The extent of economic decline has varied. The output drop in Central Asia has been generally milder than that in the former USSR as a whole, while it has been less dramatic in Uzbekistan and Mongolia than in the Kyrgyz Republic and Turkmenistan. In particular, in 1992, as inter-republic trade in the Former Soviet Union diminished, output began to fall more rapidly in all the newly independent Central Asian Republics (Pomfret 1996).

GDP growth has made a significant difference to the material lives of people. In the transitional economies exhibiting positive economic growth, as average income has risen, the quality of life has improved. Poverty has been reduced substantially in both China and Vietnam. The chronic hunger faced by a large proportion of the people living in the high population density regions in the north of Vietnam has eased.

On the other hand, because of the drop in GNP, income per head in the Central Asian Republics and Mongolia has decreased, and the negative effect has become quite evident in changes in the profile of diets. Expenditure on bakery goods and vegetables has remained stable, but the consumption of meat and especially dairy products has fallen. There was a significant change in the structure of diets in Central Asia

beginning in 1992, when starchy foods came to account for two-thirds of caloric intake, while the protein component of diets declined sharply. In Turkmenistan, the consumption of dairy products during the first three quarters of 1992 was only about two-thirds of that of the comparable period in 1991 (Pomfret 1995).

1.3 Policy patterns in the transition

Without having to ascribe an overall purposiveness to the transition effort in each country, one can consider the different patterns into which the approaches to transition have fallen. These patterns have arisen because all transition economy policy-makers have had to face the same issues.

1.3.1 Macroeconomic transition

Transition processes have typically been launched in the context of fragile macroeconomic stability, uncompetitive domestic costs of production *vis-à-vis* foreign-produced goods, and tax systems heavily dependent on profit transfers from state enterprises (Montes and Van Arkadie 1995). For Vietnam and Mongolia, the hazards of macroeconomic imbalance were magnified by their dependence on the CMEA economies.

As in other economies, macroeconomic instability has meant inflation or increases in unemployment or both. For the Soviet-style Asian transition in particular, such as in Mongolia, rapid reform has been applied and the danger is that these economies might have been nudged unintentionally toward a 'low-growth equilibrium trap'. The advantage of the Chinese-style transition has been the maintenance of employment in the state-owned enterprises (and the associated social support programmes), at the cost of possibly wasted public funds.

The presence of a preponderant agriculture sector in the Asian transitions has turned out to have important welfare implications by permitting some leeway for more generous macroeconomic stances in at least two ways (Montes 1995). First, freeing incentives in this sector has seen an increase in output in the sector that has helped to keep the cost of wage goods down, counteracting the transition's inflationary tendencies. Vietnam moved into rice export production and attained the position of number two rice-exporting country one and a half years after restrictions on foreign sales of rice were removed, an unmistakable indication of a supply response that appears unprecedented in comparison with the non-Asian transitions. Second, a preponderant agricultural sector is associated with a relatively unmonetized economy,

something that is particularly true of a large country such as China, but less so in the case of a smaller, more open country such as Vietnam. As marketization proceeded, the corresponding increases in the demand for money provided monetary authorities with the room for money creation at a smaller inflationary/balance-of-payments impact.

All the Asian transitions, including those under socialist leadership, have moved at a breathtaking pace in freeing the mechanisms of price setting and internal trade. In the initial period, increases in the prices of wage goods have imposed a drop in family living standards. The extent to which the loss in real family incomes has been made up for by subsequent growth requires further analysis. The impact of continuing inflation on family income and on the capacity of health and educational systems to maintain historical rates of real provision also needs to be analysed.

1.3.2 Microeconomic transition

In considering the impact of microeconomic policies, it is necessary to evaluate the differential welfare impact of these policies in different regions, especially in China. Regions that have had the benefit of greater external trade and foreign investment have also reaped the advantage of access to inputs and financing through which the hypothesized supply response to microeconomic reforms can take place. More remote and less economically diversified regions or those that are adjacent to slower-growing and less open economies (a case that probably applies very well to the Central Asian Republics but also applies to parts of China and Vietnam) suffer from poorer possibilities of microeconomic response to the overall reform process. These areas could actually be victims, in terms of their loss of internal markets where goods used to be exported and through the higher costs of production inputs. These policies can have long-lasting impacts on employment prospects to the extent that these microeconomic changes render existing production methods obsolete and uncompetitive while the resources for responding to new price vectors remain meagre.

The previous emphasis on 'regional development', which in the planning period used to mean development of poorer areas for social and national defence reasons, has been weakened, if not abandoned. This has meant reductions in investment and infrastructural expenditures and reduced employment and welfare in inland and historically poor areas.

1.3.3 Privatization

In the Chinese-style transition process, privatization has focused on removing barriers to entry (Naughton 1995) and enterprise responsibility reform (Jefferson and Rawski 1994), instead of the widespread sale of state assets to private agents. This has protected employment and the welfare provisions tied to employment at state enterprises at the cost of continuing state subsidies for unprofitable enterprises. The impact of the national programme of progressively reducing these subsidies on welfare provision needs to be monitored.

Privatization in Kazakhstan and the Kyrgyz Republic proceeded along Soviet lines, with a strong element of privatization in the work collective ('insider privatization'). It appears that Turkmenistan and Uzbekistan have made only rather limited movements toward privatization. In the 'Soviet-style' privatization, insiders are motivated to protect their employment (at the cost of progressively declining incomes for workers, if the enterprise is not competitive).

The welfare impact of trends toward 'privatization' in the provision of education, healthcare and other social services also needs to be looked into. One example is in the provision of medicines. These privatization trends are occurring both consciously (as a result of policy change or ideology) and unconsciously (due to cost pressures, the impact of changing income distribution, and the increasing presence of foreign company employees in the economy).

1.3.4 Labour markets

The process of privatization has certainly had a profound impact on labour markets, labour security, family income and access to public support services. The Asian transition economies that are growing have seen large changes in the level and distribution of employment, with significant increases in the extent of private employment and employment in export-oriented enterprises.

While typically employment in these newer sectors has been at higher wages, such employment has also been at the expense of loss of access to enterprise-provided public support services, except where these are made available through family units, and certain family members have continued in public employment. The East Asian approach of providing these benefits through enterprises and work units is the principal explanation. Asian economies, even before the central planning period, have had limited experience of nationally based social welfare programmes (Hussain and Stern 1992), or perhaps these programmes have always been quite small.

A key challenge which must be addressed in the Asian transition is that of ensuring that such support programmes continue to be available. Given the limited tradition in national public provision, one possible approach would be mandated benefits provided by all enterprises, an approach that has its own inefficiencies and is vulnerable to the creation of gaps in coverage. Asian transitions need to address this issue because the rigidity of access to benefits also makes the labour markets themselves relatively rigid, to the extent that qualified employees are reluctant to move out of enterprises because of loss of access to healthcare, education and housing benefits.

It is critical to understand the impact of the changes in the types of incomes families are receiving in both urban and rural areas. Milanovic (1998) identifies labour-market-based wage inequality as an important determinant of differences in income during the transition in Europe. It is important to ask: are the same mechanisms at work in Asia? Is wage income increasing in the rural areas, and are these incomes extremely unevenly distributed? What are the reasons, if any, that wage incomes are highly unequal? What is happening to public works schemes, labour training programmes and wage subsidies (if any)? What is happening to the minimum wage and wage-setting regulations?

The substantial role of agriculture in the Asian transition raises specific issues in analysing the impact of transition on labour markets. One aspect is the phenomenon of migration. Another aspect is the question of access to income-earning assets (even though this element is also important in urban areas). It is important to find out what has been the policy and the performance with regard to transferring income-earning assets to the actual manager of the resource. Reforms in agriculture in China started with the so-called 'responsibility system'. To what extent have the same reforms been implemented in the other Asian transitions and what is their impact on family income? Have formal credit markets begun to assist smallholders and entrepreneurs to increase their production?

1.4 Measuring the welfare impact of transition

In order to introduce the evaluation criteria implicit in the studies in this volume, we conclude this introductory essay with a consideration what we see as the 'ideal' means by which one might measure the welfare impact of the transition (or of development, for that matter).

The word 'ideal' speaks to the fact that in many cases these concepts cannot be operationalized, or even if they might be, the information does not exist.

We start from the position that the possession of commodities is far from being an adequate measure of human welfare. There are other equally (if not more) important factors which affect well-being. We propose a set of five types of indicators which need to be taken into account in the assessment of welfare change in each country. The set of indicators proposed here proceeds from earlier work carried out in European transition economies (UNICEF 1993, 1994, 1995; Cornia et al. 1996).

These five general types of indicators are the following:

1. *Opulence indicators*. These are mainly economic indicators concerning the changes of material well-being of the population. The most common is per capita income. Others include the actual possession of durable commodities, the availability of food, housing, and so on. At the national level distribution is as important an indicator of the well-being of the population as is these goods' overall availability. Other measures in this class include the incidence of poverty.

It will be advantageous to broaden opulence-related measures beyond per capita income. Measures of changes in the diet and possession of durable goods are particularly valuable since they track not only income improvement but also accessibility to the benefits of growth. Measures of savings and the quality and size of housing are also important measures in this regard.

2. *Capability-based indicators*. These indicators are meant to measure how people actually function in society. Life expectancy, mortality and morbidity are all crucial to the quality of human life. 'The dead cannot do much' (Sen 1995), and the sick and weak do less than healthy citizens. Access to long life and health also depends on improved nutrition and medical care. In addition to living long and healthy lives, the fulfilment of human lives in modern society increasingly depends on educational attainment, skills and knowledge.

For capability-based indicators, a comparison between pre-reform and post-reform trends in life expectancy, mortality and morbidity (and other similar indicators) can provide useful indications of the long-term impact of the reform process. It is also important to assess whether the gaps in these indicators between rural and urban areas and across gender are widening or declining. Changes in these indicators also indicate how the healthcare and educational systems are

holding up under the pressures of marketization. Are budget pressures reducing the coverage of the system? Is the public sector losing personnel because of the increasing availability of better-paying positions in the private sector for doctors, nurses and teachers? (Desai 1992). Pressures on public budgets and marketization will also affect performance with regard to education and literacy indicators.

3. *Demographic-based measures.* Marriage, divorce and fertility rates reflect expectations and perceptions about the future. This has been demonstrated in the case of European transitional economies, where demographic crises have exploded in distressed economies (Cornia and Panicià 1996). It will be interesting to apply the same kind of measurement to the Asian transition economies, where both positive and negative patterns of growth have been witnessed. Understanding the demographic trends will throw light on how families and communities are perceiving the movement toward the market.

Perceptions about current and expected welfare change can affect decisions to marry, divorce, or have children. In Russia and in most of Central and Eastern European countries, marriage and birth rates declined in 1989–95, the first years of the transition. Are these kinds of dynamics being reproduced in the Asian transitions where family and community traditions are different and where the income dynamics have been far more positive? There are, also, some intervening variables, such as the state policy of limiting births and the increasing cultural acceptance of cohabitation (as opposed to marriage). The interpretation of possible increases in the divorce rate also has to be undertaken very subtly, since it too might indicate greater economic independence on the part of women as market-created opportunities increase.

4. *Human ecology indicators.* The social and natural environment under which people conduct their daily life is crucial to their physical and mental well-being. One can classify the types of indicators in this group into (a) social cohesion and (b) protection indicators and human environment indicators. Both fast and negative economic growth can worsen environmental indicators of human ecology.

The social environment includes the circumstances of personal safety, that is, the right to live peacefully without abrupt disruption or constant threat by violence and crimes. A dignified life with self-respect and confidence is also associated with other aspects of social environment such as corruption.

Changes in the incidence of crime and threats to personal security are a key aspect of the environment. Are the apparent increases in crime in the transition economies a result of 'glasnost' in statistics or is marketization proceeding to break down social relationships that used to obstruct the commission of crimes? The rising incidence of corruption in transition economies has become a journalistic staple, even though in an international comparison of corruption, market economies normally earn top marks. We have included this indicator as a measure of the security of individuals to transact their economic activities reliably and an indicator of the existence of limits to the authority of public officials. One possible measure is the number of corruption cases brought before the courts.

The fifth group of indicators, those of social stratification to be explained below are an important subset of 'opulence-based' indicators, but are put in a separate category to highlight important changes that are occurring with regard to the social hierarchy and mechanisms of exclusion.

5. *Measures of social stratification.* The welfare of a given country also has to be viewed in terms of how widely the gains or losses are spread among the population. Measures of social stratification can indicate the degree to which individuals and subgroups of the population (by gender, location, ethnic groups, skill level, age group, and so on) are being excluded from the gains/losses in the overall economic performance of the society. These can also point to the sources of social conflict, interregional tensions and individual alienation. Indeed, it can even be argued that an excessive increase in social stratification in societies with a long tradition of egalitarianism may give rise to a collapse of the overall reform effort.

The role that marketization, whether accompanied by economic growth or not, is playing in providing the context for the marginalization of certain segments of the population is a key concern of this project. Migrant workers face problems with regard to safe housing, labour protection, work safety and medical coverage. This involves a breakdown in social protection. To the extent that these 'floating populations' became a permanent social feature and 'a way of life', these groups have been marginalized. Greater social stratification can also be related to the rise in illegal activities, including drug-dealing and prostitution.

One important aspect of social stratification concerns changes in the status of women during the transition process. Are any gains that women have achieved during the socialist period being maintained or are they being lost? In the pre-reform period, employment rates of women tended to be very high; however, market pressures on state enterprises have induced large bouts of retrenchment and the incidence on women workers has tended to be higher. On the positive side, marketization has increased the number of positions available in the private sector and increased the social mobility of many women.

Our hope is that this analysis of the welfare impact of transition will indicate the extent to which transition, as it has been actually practised so far, is sustainable. There is no need to belabour the awareness that public authorities in China and elsewhere have expressed with regard to problems of migration, increasing poverty and crime, and eroding social cohesion. The findings in this volume indicate the extent to which present patterns of transition are 'socially sustainable' and the possibilities of modifying the pattern based on the analysis.

Notes

1. On economic grounds alone, Cornia (1994, p. 585), in comparing the Chinese transition with the Eastern European pattern, suggests that many elements of the Chinese approach have been characterized by their 'self-reinforcing nature', that is, that the 'results of initial reforms generated pressures for the subsequent introduction of other reforms'. In contrast, many of the liberalization-dependent approaches implemented in Europe have themselves endangered economic stability, requiring additional stabilization measures and thereby raising issues of the optimal 'sequencing' of policy reforms. This proposed research is more concerned with the social aspects of sustainability.
2. ILO/EASTMAT (1996) suggests that there are four variables that can be used to categorize Asian transitions: (1) the structure of the economy at the start of the transition; (2) the extent and duration of controls during the central planning period; (3) the degree of integration with the CMEA system; and (4) extent of the pre-reform crisis in terms of macroeconomic stability.
3. It is of course well known that in Europe, reforms in Hungary were initiated in 1968, attempted in Czechoslovakia in 1967 when they were interdicted, and initiated much later in Poland in 1981. The former Yugoslavia abandoned formal planning in the 1950s.
4. See also the data on the growth of GDP in selected ATEs during the transition period in ADB (1996), Figure 2, p. 20.

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