

# Unemployment, Employment and Development in Asia

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# 1. Introduction

Myrdal's Asian Drama rejected the colonialist or mercantilist approach and its interpretation of the labour market. He was also critical of the then 'modern approach': fast growth in the modern industrial sector profiting from a large reserve pool of labour.

For Myrdal the 'reserve army of labour' was not a useful concept as the informal labour force lacked many characteristics for it to be a genuine reserve pool of labour for modern industry.

Myrdal did not use term informal sector but in his analysis he used the notion of an informal sector widely. His analysis led to notions of and human capital theory, basic needs, human development and capabilities.

SDGs reflect the, although not always very theoretically, Myrdal's idea of cumulative causation

## 2.1 Asian regions compared with other developing regions

From 1965 till 2015 the East Asia and Pacific (EAP) region (lowest per capita income of all the four developing regions in 1965 !) shows an average annual GDP per capita growth of 6.2% which has accelerated to 8.1% over the period 2000-2015, which is the fastest of all developing regions. This was mainly the result of diversification of the economy.

The fast growing EAP region had and has also the highest employment to population rate.

There is a striking difference with South Asia Region in both growth performance and labourmarket developments.

## 2.2 Diverse labourmarket experience in Asia

Establishing a set of countries for analytical purposes.

- (a) rapid economic growth with a good labour market regime;
- (b) rapid economic growth with a weak labour market regime (described sometimes as jobless growth);
- (c) neither rapid economic growth nor a good labourmarket regime (where underemployment persisted in the subsistence sector and grew in the urban informal sector).

## Growth criteria (1965-2015 by decades)

5 fast growers, with an average growth rate over the period, or over the data span available, of more than 4.5 per cent per capita growth : China, S-Korea, *Vietnam*, Thailand, *Bhutan*

6 medium growers with an average per capita growth rate between 4.5 and 3 per cent : Malaysia, Indonesia, India , Sri Lanka, *Laos, Myanmar*

4 slow growers with a per capita growth rate of lower than 3 per cent : Pakistan, Nepal, Bangladesh, Philippines

Countries/Cities excluded because lack of consistent data:  
Cambodia, Taiwan, Hong Kong, Singapore

Table 3.3 Country Classifications by economic growth, 1965-2015 and 1985-2015

		High Growth	Medium growth	Low growth
<b>Period 1965-2015</b>		China, S-Korea, <i>Vietnam</i> , Thailand, <i>Bhutan</i>	Malaysia, Indonesia, <i>Laos</i> , <i>Myanmar</i> , India, Sri Lanka	Pakistan, Nepal, Bangladesh, Philippines
<b>Period 1985-2015</b>		China, S-Korea, Vietnam, Bhutan, Myanmar, India	Thailand, Malaysia, Indonesia, Laos, Sri Lanka, Bangladesh	Pakistan, Nepal, Philippines

Source: Table 3.1 and 3.2. *Countries in italics do not have information for all time periods*

Only three countries (India, Myanmar, Bangladesh) made it to a higher growth league in the later period, while only one (Thailand) degraded. So the growth dynamism that Asian countries had shown as from the writing of Asian Drama in 1965 was with a few exceptions reinforced in the 1985-2015 period.



## Countries varies substantially in labourmarket performance

Fast growers (except Bhutan): high employment to population rate, fast declining number of working poor, rapid or steady decline % labourforce in agriculture, high and increasing literacy rates, declining poverty rates.

Medium growers more mixed picture on these indicators.

Slow growers low employment to population rates, high poverty rates, much variation in decline employment in agriculture. Literacy rates and secondary school completion rate also low, except for Philippines



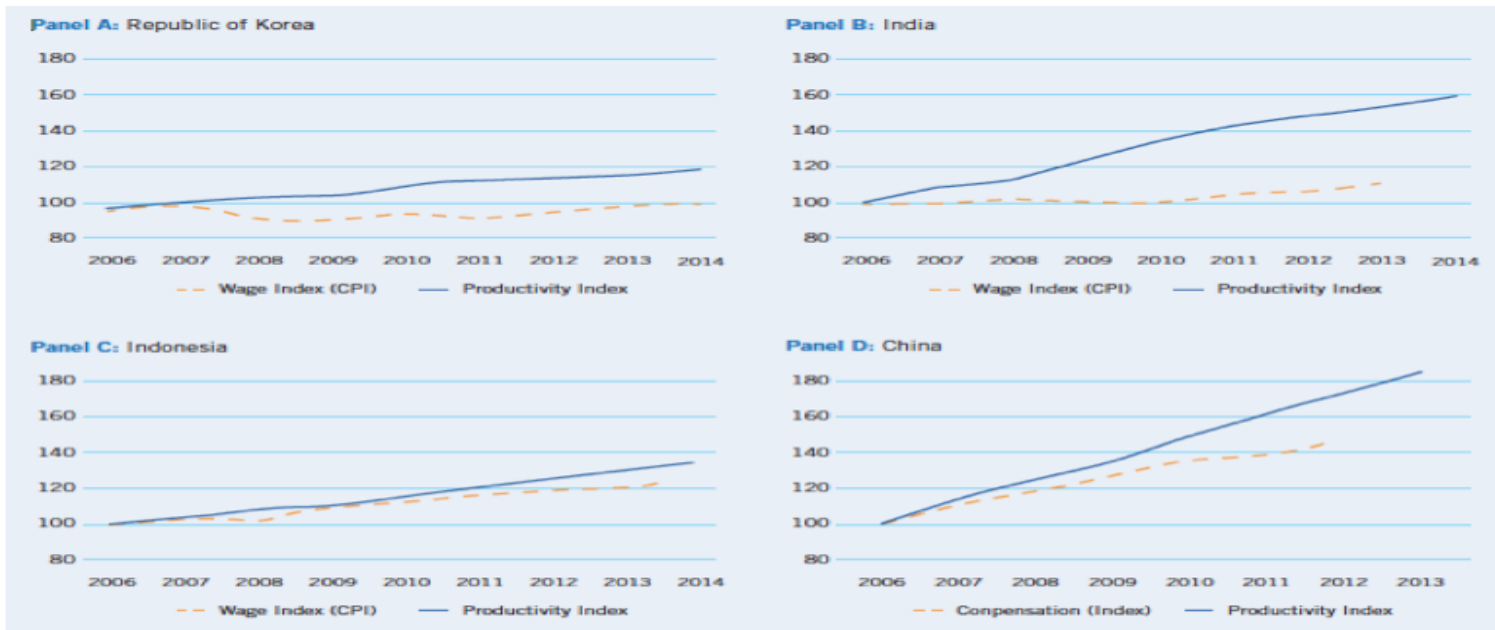
# Country Classifications in Asia

**Table 12.2 Country classifications by growth and labour market regime: 1986–2015**

	High growth	Medium growth	Low growth
Good labour market regime	China, S-Korea, Vietnam,	Malaysia, Indonesia, Thailand	
Weak labour market regime	India	Laos, Sri Lanka, Bangladesh,	Pakistan, Nepal, Philippines

Source: Based on van der Hoeven (2018: tables 2, 3, 4).

Figure 3.4 Cumulative labour productivity and real wage growth (Korea, India, Indonesia and China) 2006=100



Source: ILO, 2016, Figure B1-1, page 5

In all four countries where data are available, *real wages grew slower than productivity, with the discrepancy being much greater in India*, confirming the classification of India as a weak labourmarket regime, in contrast to the other 3 countries which are all classified as having a good labourmarket regime

# Gender

The most striking case for gender policies is that the group of countries in the fast growing regime with a good labourmarket regime *have all a much higher female labourforce participation rate than the countries belonging to the slower growth regimes* (For the period 2006-2015: China 64.0. Vietnam 72.9 compared to India 29.5 and Myanmar 53.5).

Also the percentage of female wage and salaried workers is on average higher for the fast growing countries with a good labour market regime than with a weak labour market regime.

In countries with a *high or medium growth regime and with a good labour market regime, female unemployment is at similar levels as male unemployment*, while in countries with a *slow or medium growth regime female unemployment is higher and sometimes substantially high* (Pakistan, Sri Lanka, Bangladesh) than in other country groupings.

*Thus how women are treated in the labour market has a clear effect on the economic and social status and growth potential of countries in Asia.*

## Less differences between male and female unemployment in fast growing countries with a good labour market regime

	Female unemployment rate lower or equal to male unemployment rate	Female unemployment rate larger than the male rate but less than 1.5 times the male rate	Female unemployment rate larger than 1.5 times the male rate
2006–2015	China, S. Korea, Vietnam, Laos, Nepal, Thailand	Malaysia, Indonesia, India, Philippines	Bangladesh, Pakistan, Sri Lanka
1996–2005	China, S. Korea, Laos, Vietnam, Thailand	Bangladesh, Malaysia, Indonesia, India, Philippines, Nepal	Pakistan, Sri Lanka

## 2.3 Policies and institutions in successful countries

Six countries with a high or medium growth regime and a good labour market regime all had an important starting point: their *initially* low household income inequality.

Several countries, which did not manifest a high growth regime, also have, or had at least in the past, a low inequality regime. A low inequality regime is a necessary but certainly not a sufficient condition for a virtuous growth and employment pattern.

High growth and good labour market regimes are also characterized by land redistribution and early investment in education

## 2.3 Policies and institutions in successful countries

Common element in the three fast growing and the three medium growing countries, with a high labour market performance are the drivers of growth. All countries in these groups made use of external markets to sustain a demand led growth regime.

Their virtuous growth regime was mildly profit-led, where there is room for wage growth and where profits were reinvested in the economy. This added to a demand impulse, but also led through productivity gains, to an expansion of supply (Kaldor-Verdoorn mechanism)

*Countries with an explicit growth regime, based on strong demand impulses and managing a fairly income distribution regime showed better performances on the labour market, as employment generation and increasing rewards of the factor labour made a virtuous growth path possible*

## 2.3 Policies and institutions in successful countries

Policies and institutions that led to redistribution before growth ( Adelman)

Policies and Institutions that tamed capital and labour in initial phase. (parallel and difference with golden age in Western Europe and East Asia, Singh)

Market enhancing versus growth enhancing Governance (Kahn)



# Policies and institutions for Employment intensive growth

Agricultural policies:

Countries, with fast and medium growth and with a high labour market regime, had a government policies to *increase agricultural productivity through land redistribution, investment, subsidies and the provision of 'public goods' for agriculture and for human development* .

Myrdal: cottage industry

In countries with virtuous growth patterns stimulating cottage industries played a lesser role than in the countries that did not manifest a virtuous growth pattern. This is made clear by comparing industrial policies in India and China. India's industry is far below its potential according to its level of GDP.

# Example: Policies for transition in Vietnam and Bangladesh

A different path of transformation in Vietnam and Bangladesh resulted in better labourmarket outcomes in Vietnam. In the 1986-95 period the share of agricultural employment and manufacturing employment was in both countries the same (around 64 percent and around 14 percent).

This pattern changed in the 2006-2015 period: the share of agricultural employment declined in both countries to around 47 per cent, but the share of manufacturing employment became larger in Vietnam (around 22 per cent) than in Bangladesh 18 percent.

*Higher productivity in manufacturing in Vietnam resulted also in drastic changes on poverty profiles: 1986-1995 period poverty profiles were about the same (78 %) , but 2006-2015 period saw a stark decrease in Vietnam ( 28%) and much less stark decrease in Bangladesh (59%)*

*While both countries became export oriented, the gradual interventionist successful policies in agriculture and in manufacturing in Vietnam led to much better economic and labourmarket outcomes compared to what happened in Bangladesh.*

## Policies and institutions for Employment intensive growth

Countries with fast and median growth with a high labourmarket regime, despite different political constellations had institutions and applied policies that fostered a Lewisian development process.

*Labour could move to industry, a process that Myrdal himself had cast doubt upon because of the inability of the rural workforce to be productively engaged in industry.*

## 3. Labour market Challenges next 25 years

1. Demographic trends and challenges
2. Migration
3. Globalization and the integration of Asian countries in the world economy.
  1. Technology, industrialization and labour replacement
  1. Future of work
  1. Income and wealth Inequalities
  1. Social development, education and health

## 4. Conclusions

1. Myrdal's reject of the western approach to employment was correct, but he underestimated the effects of Lewisian process.
  2. Initial conditions played a certain role countries making it in the category of high growth – high employment, but less than Myrdal predicted.
  3. Myrdal was spot on with his concept cumulative causation: All countries with a good labourmarket regime applied a host of interventionist policies in agriculture, industry and macro economics, as well as in social policies and treatment of women in the labourmarket.
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1. Successful countries are characterized by initial low income inequality and targeted redistribution of factors of production. For some countries growing inequality over the later decades, though, becomes a serious problem.
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1. Demographic development, migration, technology and the future of work raise different challenges for Asian countries. Rethinking of current policies and coordination between Asian countries is needed.