

# Labor Markets in Asia: Promoting Full, Productive, and Decent Employment

*A merchant may sell many things, but a worker usually has only one job, which supplies not only his livelihood but often much of his sense of identity. An unsold commodity is a nuisance, an unemployed worker a tragedy*

(Paul Krugman)

*Key Indicators 2005*

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The full text can be downloaded from:  
<http://www.adb.org/Economics/pdf/Labor-Markets-in-Asia.pdf>

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# LABOR MARKETS IN ASIA

## Issues and Perspectives



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# WHAT IS THE PROBLEM?: How can Asia help its poor climb out of poverty?

The region has at least 500 million people *unemployed* and *underemployed*; 245 million new entrants by 2015

Will they get *jobs* that are *productive* and *decent*? "Employment" is today's Asia's most pressing issue

Poverty reduction requires helping people as workers

# FEATURES OF ASIA'S LABOR MARKETS: POVERTY

**1.** In all likelihood, Asia will be able to achieve MDG on poverty reduction, half the proportion of people living under \$1 a day by 2015. The region still homes to about 621 million people, more than 2/3 of the world's poor, living on less than \$1 day (2003).

If the poverty line is raised to \$2 day, Asia has 1.8 billion people, more than 3/4 of the world's poor.

# WHY DOES THE LABOR MARKET MATTER?

**First**, at the microeconomic level, labor is a cost to the firm.

**Second**, the labor market is one of the main channels through which globalization can affect the developing countries (e.g., income distribution).

**Third**, in developing countries labor is often the only asset poor people have.

**Fourth**, a labor market that facilitates job creation and leads to increases in productivity is a key ingredient of a business climate where new firms are created and private agents find the proper incentives to invest and innovate.

# FUNCTIONS OF THE LABOR MARKET

A labor market is said to perform “well” if it achieves the two primary objectives of *efficiency* and *fairness*.

- Allocate Resources
- Allocate Incomes
- Allocate Risks

# THE BROADER CONTEXT

Three changes in the past decade have produced a huge global oversupply of labor.

**First**, the end of the Cold War threw hundreds of millions of workers who belonged to non-market economies (mostly in Russia, the People's Republic of China (PRC), Eastern Europe, and even India) onto the global labor market.

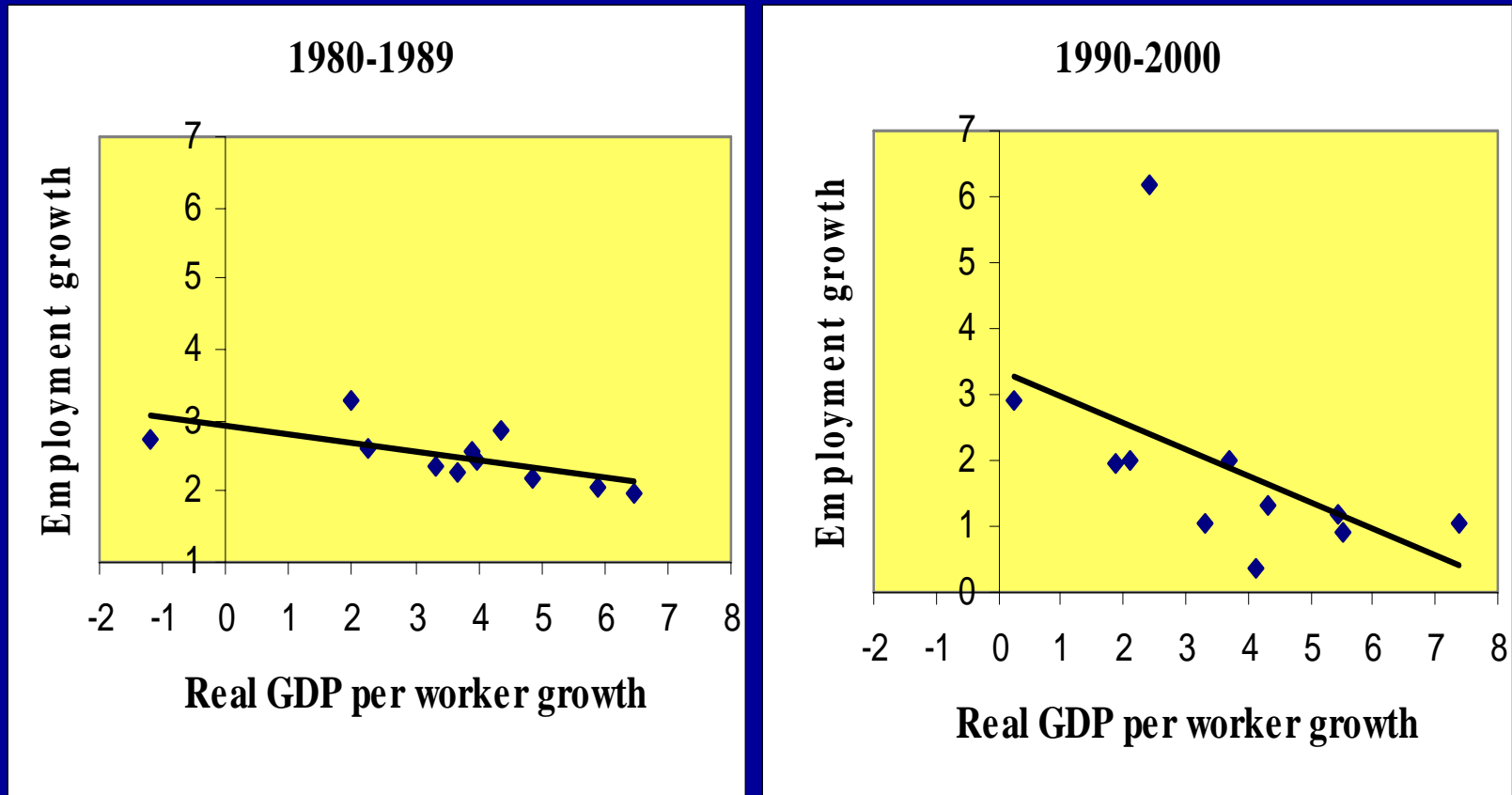
**Second**, the demographic transition in many Asian countries has led to a significant increase in new entrants into the labor force, thus compounding the problem above.

**Third**, the interaction of *globalization*, rapid *technical progress*, and intense *competition* has turned a segmented worldwide labor market into a very integrated market that permits, for example, outsourcing of a large number of manufacturing and service jobs.

# FEATURES OF ASIA'S LABOR MARKETS: GROWTH vs. EMPLOYMENT

**2.** Countries across the region are achieving respectable **rates of growth**. But **unemployment** is on the rise.

# Figure 3.3: Employment Growth and Real GDP per Worker Growth



Source: Authors' estimates based on Penn World Table, Heston et al. (2002)

## Table 3.1: Employment Elasticities

DMC	1980s	1990s
Bangladesh	0.55	0.495
China, People's Rep. of	0.33	0.129
Indonesia	0.435	0.379
India	0.384	0.312
Korea, Rep. of	0.223	0.225
Malaysia	0.683	0.406
Pakistan	0.406	0.553
Philippines	0.535	0.731
Singapore	0.375	0.711
Thailand	0.315	0.193
Taipei, China	0.242	0.139

Source: Authors' estimates.

# OTHER FEATURES OF ASIA'S LABOR MARKETS:

3. Young women and men aged 15-24 years bear the brunt of rising unemployment.
4. Informal economy represents a major challenge. Informal employment in developing Asia comprises about 65% of non-agricultural employment (48% in North-Africa; 51% in Latin America; 72% in Sub-Saharan Africa).

# OTHER FEATURES OF ASIA'S LABOR MARKETS:

5. There is concern about the quality of employment being created.

Transfer from agriculture to services.  
Does the latter provide "better" jobs?

6. Not likely to achieve MDG on gender equality. Despite some progress in terms of gender gaps, women workers still remain disadvantaged and discriminated against.

# OTHER FEATURES OF ASIA'S LABOR MARKETS:

7. Real wages in manufacturing are increasing (e.g., more than doubled in China since 1990), though not everywhere.
8. Uneven decline in child labor across the region

# SUMMING UP.....

Challenges to fight poverty from the employment front:

- (i) Create jobs for the unemployed and for the new entrants;
- (ii) Improve the productivity and earnings of the available jobs (underemployed);
- (iii) Countries may be creating jobs, for example in the service sector and in the informal economy. Many of these jobs, however, are not necessarily "better" than those in agriculture.

# Framework for Full, Productive, and Decent Employment

## Labor Market Outcomes



## Policies



## Objectives



# **COUNTRY STUDIES: Labor Market Policies In Asia**

**INDIA**

**INDONESIA**

**PHILIPPINES**

**VIETNAM**

**PRC**

**Are labor market reforms necessary?**

# CONCLUSIONS OF THE CASE STUDIES

- (i) The case of reform of labor markets based on the supposed inflexibility of labor regulations and policies is weaker than proponents of market oriented reforms argue.
- (ii) Reform should focus exclusively on the labor code that are a problem. These should be determined on a country-by-country basis.
- (iii) Even these (above) are not the only factors leading to poor labor market outcomes.
- (iv) In fact, most factors behind weak labor market outcomes are to be found outside the realm of labor market policies.

# DECENT EMPLOYMENT

Much of the debate on labor market reforms has focused narrowly on the impact of labor regulation on the formal sector.

The majority of Asia's workers are, however, employed in the informal sector, where basic rights and the provision of social protection are minimal.

Therefore, a more balanced call for labor market reforms would entail the extension to all workers basic rights and access to some mechanisms of social protection.

These are key for ensuring decent employment.

# TOWARD FULL AND PRODUCTIVE EMPLOYMENT

Employment and productivity growth  
must be central to macroeconomic  
policy

Challenge: How to put in place a growth  
process that is compatible with and  
delivers the goal of full employment

# GROWTH-PROMOTING POLICIES

- (i) Policies to improve productivity and incomes in the rural and in the urban informal sectors

Rural: Infrastructure (e.g., irrigation, transport, electrification); Basic education and health care; Credit; Land reform; Enterprise development

Urban informal: (a) Actions governments take to hinder entrepreneurship and growth; (b) Actions that governments fail to take to promote entrepreneurship and growth. Result: Costs of informality

# GROWTH-PROMOTING POLICIES

- (ii) Export Push: None of the Asian Tigers managed their rapid climb into the ranks of middle income and rich countries without a boom in export-oriented manufacturing.
  
- (iii) Industrial policies for Public-Private coordination, diversification and restructuring.

Investment is constrained not only by "government failures" but also by "market failures".

## Some design principles

- (i)** Public support should be provided to activities, not sectors;
- (ii)** Clear benchmarks for success and failure must be adopted;
- (iii)** Agencies that implement industrial policy must be competent, have good communication with the private sector and be monitored by the highest level of leadership.

# HUMAN CAPITAL POLICIES

**Objective: Productivity improvement. This is the way out of the “low-skill, bad-job” trap:**

**Low supply of skills and low demand for skills**

**Constraint to progress: Mismatch**

**Education versus trainability**

# LESSONS FOR POLICY

Unemployment and underemployment are the ultimate causes of poverty in Asia.

Surest means of fighting poverty is large-scale job creation.

We have proposed a framework to achieve the objectives of *full*, *productive* and *decent* employment. These objectives must become central to macroeconomic policy (*time-bound*, *feasible*, *measurable*, *credible*).

Labor market rigidities are not the culprit for poor labor market outcomes.

# LESSONS FOR POLICY

We have rejected calls for across-the-board labor market reforms. Instead, we advocate well-designed, country-specific piecemeal reforms that target the particular policies that may inhibit employment creation.

We have argued that the policies that will have the highest impact in achieving full and productive employment are the growth-promoting policies: (i) Rural and urban informal sectors; (ii) Export push; (iii) Industrial policy for restructuring and diversification.

The requirement for restructuring and diversification and the nature of current production technologies highlight the importance of developing effective social protection mechanisms and appropriate human capital policies, especially those enhancing trainability.

**THANK YOU**