

## Asian Employment Forum: Growth, Employment and Decent Work

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### ABSTRACT

#### Setting policy directions for job creation and poverty reduction

With an annual average real GDP growth rate of 6.3 per cent between 2000 and 2006, double the world average of 3.1 per cent, the Asia-Pacific region has been an engine of global growth.<sup>1</sup> This growth has contributed to the reduction of extreme poverty in the fastest growing countries of the region, notably in the East Asia subregion.

Rapid growth has enabled a fall in the incidence of poverty with the numbers of women and men living with their families on US\$1 per day or less in Asia down to 631 million in 2004 from 955 million in 1990, and to 19 per cent from 35 per cent as a share of the total population. This compares with global figures that remain at over 1.0 billion for US\$1 per day poverty, down to 16 per cent from 24 per cent of the population, largely as a result of the fall in East Asia.<sup>2</sup>

The region's unemployment rate, however, rose from 4.2 per cent in 1996 to 4.7 per cent in 2006.<sup>3</sup>

Many countries in the Asia-Pacific region remain concerned that the current pace and pattern of growth are not creating decent work opportunities to accelerate the rate of poverty reduction and reduce unemployment. Poverty reduction efforts in South Asia have been disappointing despite the recent pick up in GDP growth. Furthermore, several Asia-Pacific countries, notably in South-East Asia, have suffered crises and downturns in the course of the past 15 years which have had a long-lasting impact on labour markets and poverty. Growth performance and its impact on the labour market and poverty have also been varied in this huge and diverse region.

This paper analyses the two-way relationship between employment growth, real wages and overall economic performance. It points to the balanced growth of consumption as a crucial but neglected driver of sustainable development throughout the region. Decomposition of growth rates achieved in the Asia-Pacific region over the past 25 years shows that in quantitative terms the primary driver of growth was consumption, although export growth shot up considerably from a smaller base. Consumption growth explains

<sup>1</sup> International Monetary Fund (IMF): World Economic Outlook Database (Apr. 2007).

<sup>2</sup> World Bank: World Development Indicators (2007).

<sup>3</sup> ILO: Global Employment Trends Model (2007).

both upturns and downturns in economic growth.<sup>4</sup> A second driver of growth is investment, which itself is closely correlated to consumption growth. Consumption growth is in turn fuelled by employment levels and conditions, and particularly real wages. Export growth is a close third driver, approximating investment in some countries. Government expenditure is a fourth driver as it contributes to growth. This pattern of growth has been stable over the past 25 years, and the depth and length of the recessions was largely determined by falls in consumption and investment. Exports and government expenditure have also contributed to restoring growth and boosting consumption.

This perspective helps to explain why increased employment and improved wages and other conditions of employment are growth drivers rather than a consequence of growth. Examining the conditions in which consumption-led growth can be sustained at a pace equivalent to the growth of an economy's productive capacity also serves to restore a more balanced perspective to the policy debate.

Exports provide an important stimulus to the development process; but for countries with large populations, they account for a relatively small proportion of growth in demand and thus of overall economic performance. Asia-Pacific economies, such as Hong Kong (China), the Republic of Korea, Singapore and Taiwan (China), were able to base their growth on exports in the last three decades of the 20<sup>th</sup> century, mainly because a small share of the growing import demand from the United States and other industrial countries was a significant component of their national income. However, exports are a smaller proportion of the aggregate demand of Asia-Pacific countries with larger populations, such as China, India, and Indonesia. For them, continued export demand growth has been significant but has not been solid enough to serve as a foundation for sustainable development. The growth driver in the 21<sup>st</sup> century for the Asia-Pacific region, and increasingly for the world, will be consumption; this will in turn depend on the expansion in productive employment and decent work opportunities which raise the purchasing power of the mass of working women and men.

This paper therefore addresses the economic sustainability of the consumption-employment-wage drivers of growth. It points to the interaction between productivity growth (and the capacity of economies to supply growing markets with competitive products and services), and improved wages and working conditions for a growing labour force (and the increased consuming power of the bulk of the population, especially those escaping from poverty). It also examines the vulnerability of the consumption-employment-wage channel to crises and downturns. It argues that alongside a brisk and stable increase in decent work opportunities, including in real wages, societies and economies in the Asia-Pacific region need social protection systems to sustain the purchasing power of those unable to work – as well as those unable to earn a sufficient income from their work – and to underpin recovery from crises and downturns.

The institutional framework for labour markets is therefore not only vital to equity and the efficient allocation of human resources, but also to the sustainability of the growth of employment, wages, consumption, and investment. Maintaining the balance between these interconnected components of growth in open market economies requires, amongst other

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<sup>4</sup> In most countries in the world, including most Asia-Pacific countries, consumption comprises the bulk of GDP. Hence, changes in consumption tend to have a relatively large effect on overall GDP growth. See, for instance, Alan Heston, Robert Summers and Bettina Aten: Penn World Table Version 6.2, Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania (Sept. 2006), <http://pwt.econ.upenn.edu/>.

things, good publicly available information and analysis, a responsive public administration equipped with the appropriate policy tools and a smooth functioning tripartite dialogue.

### **Suggested key questions**

1. What changes might be needed in the policy framework to facilitate a shift towards a more sustainable development trajectory for Asia and the Pacific built around the Decent Work Agenda?
2. What are the policy solutions that would promote domestic consumption and export competitiveness in the Asia-Pacific countries?
3. How can countries in Asia and the Pacific promote better policy coherence to ensure that growth translates into decent job opportunities, reduced poverty and less inequality?
4. Where are the main gaps in social protection systems in terms of providing adequate support to the consumption needs of the most vulnerable?
5. If employers have to adjust to increasingly fluctuating demand in a globalising world, in part by adjusting their employment levels, are employment stabilisation programs, like India's employment guarantee scheme, the answer to sustaining employment?
6. How can countries in Asia and the Pacific strike the right balance between labour absorption and labour productivity?
7. Which specific policy areas should be prioritized in terms of knowledge sharing on good practices for job creation and poverty reduction? How can this information be shared more effectively between countries and among constituents in the region?