

Setting policy directions for job creation and poverty reduction

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1. Introduction

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.¹ This growth has contributed to the reduction of extreme poverty in the fastest growing countries of the region, notably in the East Asia subregion. The region's unemployment rate, however, rose from 4.2 per cent in 1996 to 4.7 per cent in 2006.²

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.³

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 both upturns and downturns in economic growth.⁴ 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.

¹ International Monetary Fund (IMF): World Economic Outlook Database (Apr. 2007).

² ILO: Global Employment Trends Model (2007).

³ World Bank: World Development Indicators (2007).

⁴ 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 (Sep. 2006), <http://pwt.econ.upenn.edu/>.

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 20th 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 21st 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 things, good publicly available information and analysis, a responsive public administration equipped with the appropriate policy tools and a smooth functioning tripartite dialogue.

2. Growth, jobs, decent work and poverty reduction in Asia and the Pacific

Overall strong growth, rising productivity and rapid structural change, but with significant variations across the region

The strong growth performance registered in the Asia-Pacific region in the 1990s continued at the high level of 6.3 per cent per year between 2000 and 2006. But regional variations are large: East Asia leads with annual growth of 8.6 per cent, South Asia followed with 6.4 per cent, and South-East Asia and the Pacific with 5.5 per cent.⁵ In East Asia, China experienced high growth rates over a long period of time. In contrast, many South-East Asian countries suffered a major crisis in the late 1990s, although growth has subsequently rebounded in most of these countries. Growth in India, Pakistan and Bangladesh has accelerated in recent years but a number of other countries in South Asia and most of the Pacific Island countries have a record of prolonged stagnation (Table 1).

⁵ IMF: World Economic Outlook Database (Apr. 2007).

This regional growth has been based on strong productivity growth and structural changes. Regional productivity rose by 45 per cent over the period 1996-2006.⁶ Industrial output has grown at 7 per cent per year over 2002-2006, followed by services at 6 per cent, while agricultural growth has lagged behind at 4 per cent.⁷ Industrial growth has led in each of the subregions, except for the Pacific Islands countries where agriculture has been the dominant driver of growth.

Viewed as shares of economy-wide value-added, the services sector represents 48 per cent of the regional economy in 2004, up from 45 per cent in 1990, followed by industry with 34 per cent, up from 29 per cent, and agriculture with 18 per cent, down from 26 per cent.⁸

Higher growth has produced more jobs for women and men but not enough

In absolute terms, the labour force in the Asia-Pacific region increased by 265.5 million between 1996 and 2006, but regional economies only managed to create 245 million new jobs.⁹ One consequence of this is that the regional unemployment rate rose from 4.2 per cent in 1996 to 4.7 per cent in 2006.¹⁰ East Asia, with the highest GDP growth rates, as well as 45 per cent of the total regional labour force of 1.8 billion, managed to show a slight downward trend in its already low unemployment rate, from 3.8 to 3.6 per cent. However, lower GDP growth rates in South Asia led to a rise in unemployment from 4.9 to 5.4 per cent. Unemployment increased sharply from 3.7 to 6.2 per cent between 1996 and 2006 in South-East Asia and the Pacific, the subregion that was worst hit by the financial crisis of the late 1990s.

Two important indicators – women's unemployment and youth unemployment – followed a similar pattern. Women's unemployment increased in the region for the period 1996-2006 from 4.0 to 4.7 per cent, falling slightly for East Asia but rising in the other subregions.¹¹ Youth unemployment rose from 9.0 to 10.2 per cent over the same period, particularly as result of the large increase from 9.6 to 16.5 per cent in South-East Asia and the Pacific.¹²

Overall, East Asia reduced its unemployment rate by creating 76.2 million jobs over the past decade.¹³ South Asia actually created more jobs, 120.4 million, although this was not enough to stop its unemployment rate rising as the labour force grew faster.

⁶ World Bank: World Development Indicators (2007); ILO: Global Employment Trends Model (2007).

⁷ Asian Development Bank (ADB): *Asian Development Outlook* (Manila, 2007).

⁸ World Bank: World Development Indicators (2007).

⁹ ILO: Economically Active Population Estimates and Projections Database, Version 5 (2006); United Nations Population Division: World Population Prospects: The 2006 Revision Population Database (2007); ILO: Global Employment Trends Model (2007); ILO: *Labour and Social Trends in Asia and the Pacific: Progress towards Decent Work* (Bangkok, 2006).

¹⁰ ILO: Global Employment Trends Model (2007).

¹¹ *Ibid.*

¹² *Ibid.*

¹³ *Ibid.*

Table 1. Gross domestic product, annual growth (%), 1990-2005

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Asia and the Pacific																
East Asia																
China	4	9	14	14	13	11	10	9	8	8	8	8	9	10	10	10
Korea, Rep. Of	9	9	6	6	9	9	7	5	-7	9	8	4	7	3	5	4
Mongolia	16	-24	-9	-3	2	27	2	4	4	3	1	1	4	6	11	6
South-East Asia																
Brunei Darussalam	3	4	-1	1	2	3	1	4	-4	3	3	3	3	4	2	...
Cambodia	3	4	-1	1	2	3	1	4	-4	3	3	3	3	4	2	...
Indonesia	9	9	7	7	8	8	8	5	-13	1	5	4	4	5	5	6
Lao PDR	7	4	7	6	8	7	7	7	4	7	6	6	6	6	6	7
Malaysia	9	10	9	10	9	10	10	7	-7	6	9	0	4	6	7	5
Myanmar	3	-1	10	6	7	7	6	6	6	11	10	11	12	14	3	5
Philippines	3	-1	0	2	4	5	6	5	-1	3	6	2	4	5	6	5
Singapore	9	7	6	12	12	8	8	8	-1	7	10	-2	4	3	9	6
Thailand	11	9	8	8	9	9	6	-1	-11	4	5	2	5	7	6	4
Timor-Leste	...	...	...	...	...	...	...	...	...	...	14	17	-7	-6	2	2
Viet Nam	5	6	9	8	9	10	9	8	6	5	7	7	7	7	8	8
South Asia																
Afghanistan	...	...	...	...	...	...	...	...	...	...	...	...	...	16	8	14
Bangladesh	6	3	5	5	4	5	5	5	5	5	6	5	4	5	6	6
India	6	1	5	5	7	8	7	4	6	7	4	5	4	8	8	9
Iran, Islamic Rep. Of	14	13	4	-2	0	3	7	3	3	2	5	4	8	7	5	4
Nepal	4	7	4	3	9	3	5	5	3	4	6	6	-1	3	4	3
Pakistan	4	5	8	2	4	5	5	1	3	4	4	2	3	5	6	8
Sri Lanka	6	5	4	7	6	6	4	6	5	4	6	-2	4	6	5	5
Pacific Islands																
Fiji	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Kiribati	2	7	-2	2	8	5	3	6	13	6	2	2	-4	2	-1	0
Papua New Guinea	-3	10	14	18	6	-3	8	-4	-4	8	-1	0	0	2	3	3
Samoa	-4	-2	0	4	-3	7	7	1	2	2	7	7	4	2	3	5
Solomon Islands	2	4	9	2	5	7	4	-1	2	0	-14	-9	-2	6	8	5
Vanuatu	0	13	5	6	10	0	3	2	3	-3	3	-3	-5	2	4	3
Developed Economies																
Australia	-1	0	4	4	4	4	4	4	5	4	2	4	3	4	2	3
Japan	5	3	1	0	1	2	3	1	-2	0	3	0	0	2	2	3
New Zealand	0	-1	1	6	5	4	4	2	0	5	2	4	5	4	4	2

Source: World Bank, World Development Indicators (2007).

Share of Asian population in poverty is lower, but total numbers remain high

The challenge for the Asia-Pacific region is not just to increase employment but to improve the quality of jobs by creating decent work opportunities. In 2006 more than half of the workers in the region were unable to lift themselves and their families above the US\$2 per day poverty threshold. This is down from nearly 69 per cent in 1996; however, analysis of the distribution of the benefits of growth between 1993 and 2001 suggest that while the poor consumed more, the bulk of the benefits accrued to the upper middle-income groups, especially in China.¹⁴

The working poor, confronted by a lack of better employment opportunities and without access to social protection, often have no alternative but to work in difficult, insecure, unprotected, unproductive and poorly paid jobs. Most find jobs in rural areas in low productivity subsistence agriculture, or in the urban informal economy, which accounts for 65 per cent of non-agricultural employment in the developing countries of the Asia-Pacific region.¹⁵

Growth is leading to a fall in the incidence of extreme poverty. The region's US\$1 per day working poor dropped to 308 million in 2006 from 457 million in 1996.¹⁶ East Asia's high growth halved the share of the working poor in total employment from 19.5 to 9.5 per cent. South Asia's lower growth reduced the working poor by a third, from 54.7 to 32.1 per cent. And South-East Asia and Pacific's low level of the working poor dropped from 22.1 to 13.6 per cent.

Many of the working poor find work in the informal economy. Assessing the impact of growth on informal employment is difficult because of serious data flaws.¹⁷ One method of estimating informal employment trends is to track the share of own-account and contributing family workers in total employment. Most, but not all, of informal economy workers are likely to be categorized under these headings in labour force surveys. A few own-account workers and their contributing family members will be operating formally; however, this proxy for the scale of informality is useful as an indicator of trends. The region's own account workers plus contributing family workers decreased from 67.2 per cent of employment in 1996 to 61.9 per cent in 2006.¹⁸

The poor are migrating into the cities and leaving agriculture

Between 1996 and 2006, total employment in agriculture contracted by 6 million, while employment in industry and services expanded by 92 million and 159 million, respectively.¹⁹ Contrary to the expectations of established theories about the development process, most countries in the Asia-Pacific region are witnessing a shift away from low-productivity agricultural employment towards employment in services; the growth in industrial employment has not been as intensive or protracted. The underlying factors may be twofold: First, it may be that imported technology in manufacturing may not be generating sufficient jobs in industry.²⁰

¹⁴ P. Edward: "Examining inequality: Who really benefits from global growth?", in *World Development*, Vol. 34, No. 10, 2006.

¹⁵ ILO: *Labour and Social Trends in Asia and the Pacific: Progress towards Decent Work*, op. cit. See also ILO: *World Employment Report 2004-05: Employment, Productivity and Poverty Reduction* (Geneva, 2005).

¹⁶ ILO: Trends Working Poverty Model (2007).

¹⁷ ILO: Key Indicators of the Labour Market, 4th Edition (2005).

¹⁸ ILO: Global Employment Trends Model (2007).

¹⁹ *Ibid.*

²⁰ See for example: M. Jansen and E. Lee: *Trade and employment: Challenges for policy research* (Geneva, ILO and WTO, 2007).

Second, the biggest growth within the services sector appears to be taking place in petty trading in the informal economy.²¹

Sectoral employment elasticities showing the relationship between output and employment growth within a sector reflect this structural trend in employment.²² However, it is less pronounced in South Asia, but the East Asia, South-East Asia and the Pacific subregions appear to have moved more quickly from agriculture and industry to services-led growth in employment.

Can Asia find a growth strategy that creates more decent work opportunities and reduces poverty faster?

The Asia-Pacific region has led in global growth and the reduction of extreme poverty. However, given the continued fast pace of labour force growth, worryingly high youth unemployment and large masses of rural and urban poor, doubts still persist as to whether the pace of poverty reduction and decent work creation can be improved. Some East Asian economies have sustained high growth with significant poverty reduction, while others have suffered crises and downturns, as in South-East Asia. And several are caught in prolonged stagnation, as seen in parts of South Asia and in Pacific Island countries. It is vital that fast-growing countries can sustain their growth performance and avoid shocks that can retard poverty reduction efforts and that poorly performing countries can break out of prolonged stagnation. However, the question remains: can countries improve the quality of growth and achieve a faster pace of poverty reduction by increasing decent work opportunities?

On the basis of an evaluation of the macroeconomic drivers of growth, this paper argues that such policies are feasible and suggests that productive employment and decent work are central to steady growth in consumption, which in turn fuels increased investment and government spending. Exports and openness to the global economy are important to the processes of technological transfer and innovation and can be a critical stimulus to growth. However, a sustainable development trajectory that is characterised by successful poverty reduction needs a solid foundation in improving work conditions and enhancing the purchasing power of working women and men, along with rising productivity. As the Asia-Pacific region plans for the future, more employment and decent work will be central to sustainable development. Policies that focus narrowly on financial stability and market liberalization are generating severe social and economic imbalances which could compromise the substantial progress made over the past two decades by countries in the region.

3. Drivers of GDP growth in the region

Among the important factors in analysing growth performance are the sources of demand and the enlargement of productive capacity.²³ Demand for goods and services is derived from: (a) consumption; (b) investment; (c) exports; (d) provision by the government; and (e) minus demand for imports which contributes to other countries' goods and services, leaking out of consumption, investment, exports and government expenditure. These five categories are the

²¹ N. Majid: *On the evolution of employment structure in developing countries*, Employment Strategy Paper 2005/18 (Geneva, ILO, 2005).

²² ILO: *Labour and Social Trends in Asia and the Pacific: Progress towards Decent Work*, op cit.

²³ See N.G. Mankiw: *Macroeconomics* (Worth Publishers, 2007).

drivers of the demand for all produced outputs. Analysing the composition of the demand side of growth provides important insights for the policy environment conducive to the sustainability of growth.

The magnitude of these sources of demand – consumption, investment, net exports and government expenditure – are in turn determined by a number of elements of productive capacity, some of which are quantifiable and can be shaped by policies. The level of consumption demand is strongly dependent on income, which in turn is provided by wages and productivity, profits and rental incomes. The level of investment demand is broadly determined by the level of total aggregate demand, savings, profitability conditions and the risk environment. The level of export demand is determined by unit labour costs – a function of productivity, wages, exchange rates and market access. The level of government expenditure is determined by revenues, the demand for expenditures, and the fiscal and monetary space available. The level of imports is determined foremost by the ability to pay for them, and the tariff regime.

This gives four positive drivers of growth: consumption, investment, exports and government expenditure; and a negative driver, imports. These drivers initiate demand, which is met by supply factors. Without the demand drivers, supply is likely to stagnate.

Using this framework it is possible to estimate the relative weight of demand-side drivers in the total output growth of a country over time. The estimation should preferably be over a long period of time in order to demonstrate long run stability in these growth drivers. The ILO has therefore examined GDP growth over two time periods, 1980-1990 and 1990-2004. The estimation is based on the World Bank's decomposition of demand in these periods.²⁴ This has allowed estimation of aggregate growth at a country level and decomposition of that growth into estimations of the growth of consumption, investment, exports, government expenditure and imports.²⁵

The estimation could not be made for a number of countries because of data requirements. Six countries make up the South Asia group: Bangladesh, India, Islamic Republic of Iran²⁶, Nepal, Pakistan, and Sri Lanka. Seven countries make up the East and South-East Asia group: China, and Hong Kong (China), Indonesia, Malaysia, Philippines, Thailand and Viet Nam.²⁷ Taken together, the countries sampled represented 92 per cent of the population of the Asia-Pacific region.

Consumption growth accounted for the bulk of GDP growth in the Asia-Pacific region in the past 25 years, while export growth shot up from a smaller base

Table 2 and Figure 1 show the estimates of aggregate growth in the groups South Asia and East and South-East Asia, for the two time periods, 1980-1990 and 1990-2004, and the relative importance of the different components of growth: consumption, investment, exports, government expenditure and imports.

²⁴ World Bank: World Development Indicators (2007).

²⁵ For the methodology and more rigorous results, see: M. Mahmood: *Macro policy for a cinderella economy* (Geneva, ILO, forthcoming).

²⁶ Although not part of the South Asian subregion, the Islamic Republic of Iran is included in this group as the country is covered by the ILO Subregional Office for South Asia.

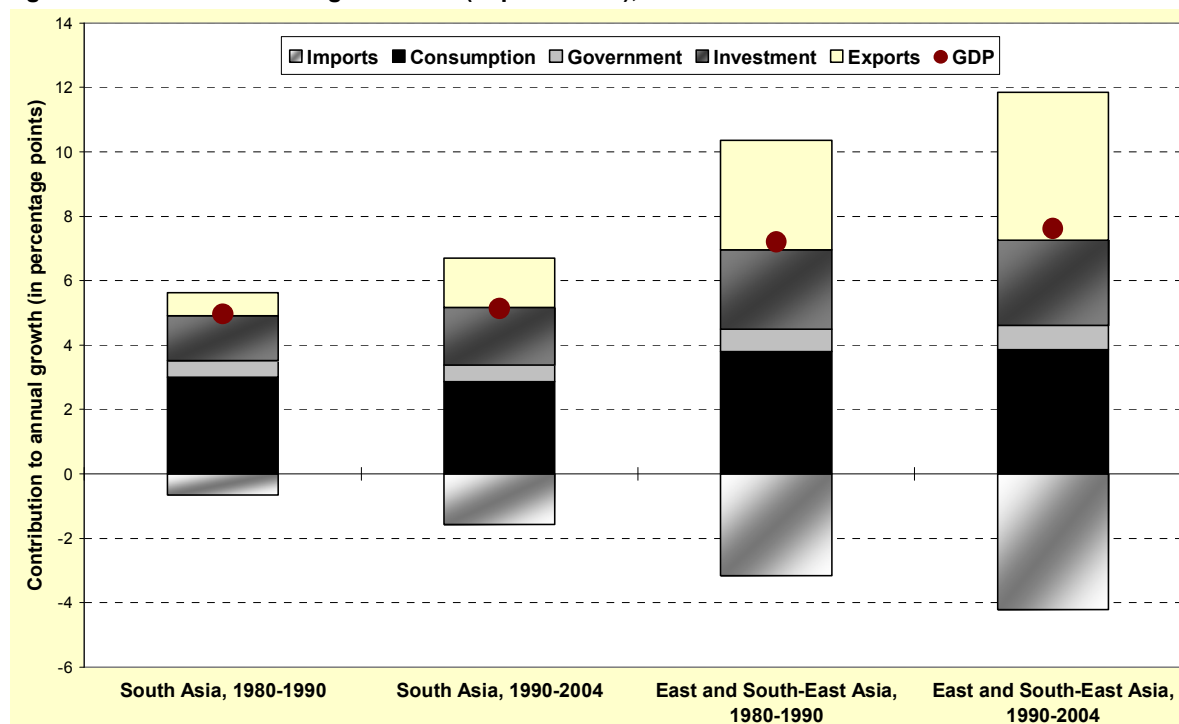
²⁷ This regional grouping effectively combines the regions East Asia and South East Asia and the Pacific that are used by the ILO. Unfortunately none of the Pacific Island countries can be represented because data are unavailable. Data for the Republic of Korea and Singapore are also unavailable.

Table 2. South Asia and East and South-East Asia: Shares in the GDP growth rate, 1980-1990 and 1990-2004

Region	GDP Growth (% p.a.)		Consumption Share (% p.a.)		Government Share (% p.a.)		Investment Share (% p.a.)		Export Shares (% p.a.)		Import Shares (% p.a.)	
	80-90	90-04	80-90	90-04	80-90	90-04	80-90	90-04	80-90	90-04	80-90	90-04
	South Asia	5.0	5.1	3.0	2.9	0.5	0.5	1.4	1.8	0.7	1.5	-0.7	-1.6
East and South-East Asia	7.2	7.6	3.8	3.9	0.7	0.8	2.5	2.6	3.4	4.6	-3.2	-4.2

Source: Computed based on World Bank: World Development Indicators (2007).

Figure 1. Shares in the GDP growth rate (% per annum), 1980-1990 and 1990-2004



Source: Computed based on World Bank: World Development Indicators (2007).

The South Asian group

The South Asian group's GDP grew at an annual average of 5.0 per cent between 1980 and 1990, and grew slightly faster at 5.1 per cent between 1990 and 2004. Consumption growth accounted for 3 percentage points of the 5 per cent annual GDP growth between 1980 and 1990; that is, two-thirds of total growth. In the next period, 1990-2004, consumption growth comprised 2.9 percentage points of the 5.1 per cent of annual GDP growth.

After consumption, the next major growth driver in the South Asian group was investment growth, which accounted for 1.4 percentage points of the 5 per cent annual of GDP growth between 1980 and 1990. Investment growth was responsible for 1.8 percentage points of the annual GDP growth which occurred between 1990 and 2004.

Exports have been the third driver of growth in the group for South Asia. Export growth accounted for only 0.7 percentage points of the 5 per cent annual GDP growth between

1980 and 1990. However, export growth shot up from this small base to account for 1.5 percentage points out of the 5.1 per cent annual GDP growth between 1990 and 2004.²⁸

Government expenditure accounted for 0.5 percentage points of the 5 per cent annual GDP growth over 1980 to 1990. And in the next period, its growth again accounted for 0.5 percentage points of the 5.1 per cent annual GDP growth over 1990 to 2004.

The East and South-East Asia group

The East and South-East Asia group followed a more complex growth pattern when compared with the South Asia group. Between 1980 and 1990, the East and South-East Asian group's GDP grew at an annual average of 7.2 per cent; average annual GDP growth increased further to 7.6 per cent between 1990 and 2004. Consumption growth accounted for 3.8 percentage points of the 7.2 per cent annual GDP growth between 1980 and 1990. Consumption growth drove 3.9 percentage points of the annual GDP growth of 7.6 per cent in the second period.

The second driver of growth in the East and South East Asian group was not investment but exports. Export growth accounted for 3.4 percentage points of the 7.2 per cent annual GDP growth between 1980 and 1990; export growth increased between 1990 and 2004 to account for 4.6 percentage points of the 7.6 per cent annual GDP growth. So in the second period of 1990-2004, export growth overtook consumption growth to become the primary driver. This shows the impact of the Asian financial crisis depressing consumption growth in certain countries.

Investment growth accounted for 2.5 percentage points of the annual GDP growth in 1980-1990, and another 2.6 percentage points of annual GDP growth in the second period.

Government expenditure is the fourth contributor to growth in the East and South-East Asia group. It accounted for 0.7 percentage points of annual GDP growth between 1980 and 1990, and 0.8 percentage points of annual GDP growth in the second period.

Summary for the South Asian, East and South-East Asian groups

In summary, consumption growth accounts for the bulk of GDP growth in the South Asian group over the past 25 years, i.e. between half and two-thirds; this is also valid for the East and South East Asian group between 1980 and 1990, but was overtaken by export growth between 1990 and 2004. In both groups of countries export growth rose rapidly over time. Investment growth was the next major driver of GDP growth in the South Asian group, accounting for between a quarter and a third of annual GDP growth. In the East and South-East Asian group, however, export growth was the second driver of GDP growth between 1980 and 1990, and the primary driver between 1990 and 2004. Government expenditure provided the remaining stimulus to annual GDP growth.

Country variations

Country estimates vary from this pattern of growth. Tables 3 and 4 give the country estimates for the group for South Asia and for the East and South-East Asia group.

²⁸ Imports, as noted above, make a negative contribution to growth in this growth accounting framework. Hence, the sum of the percentage point contributions of consumption, investment, exports and government spending to GDP growth is greater than actual GDP growth, the difference being the negative contribution of imports.

In the South Asian group, Bangladesh, India, Nepal, Pakistan and Sri Lanka followed the predominant pattern of consumption-led growth. Consumption growth accounted for between a half and three quarters of annual GDP growth for each country in the South Asian group in both periods, with the exception of the Islamic Republic of Iran. Investment growth accounted for up to one third of annual GDP growth for each country in both time periods, again with the exception of the Islamic Republic of Iran. Export growth accounted for up to one third of annual GDP growth for each country in both time periods, with the exception of the Islamic Republic of Iran. However, the increase in export growth has been very high for all countries in the region, except in the case of Pakistan. Government expenditure accounted for up to a fifth of annual GDP growth for each country in both time periods, with the exception of the Islamic Republic of Iran.

In the East and South-East Asian group, the two countries with the largest populations, namely China and Indonesia, followed a consumption-led path over both time periods, although their export growth rose considerably from its lower base. Two smaller economies, Hong Kong (China) and Malaysia, followed an export-led path over both time periods. And the Philippines and Thailand switched from a consumption/investment-led path in the first period of 1980-1990 to an export-led path in the second period of 1990-2004. This shift is most likely explained by the impact of the Asian financial crisis that hit these countries particularly hard in the latter part of this period.

Consumption growth accounted for the bulk of annual GDP growth in China (half in both periods), investment growth accounted for 30 to 40 per cent, and export growth accounted for another 25 to 40 per cent. Similarly in Indonesia, for both time periods, consumption growth accounted for the bulk of annual GDP growth, between two thirds and three quarters, followed by investment and export growth, which accounted for most of the balance. The share of export growth rose considerably for both countries, as did the share of investment growth for China. In two smaller economies, Hong Kong (China) and Malaysia, export growth accounted for all of annual GDP growth over both time periods.

In the Philippines and Thailand, consumption growth in the period 1980-1990 was the major driver of GDP growth, followed by investment growth in second place and exports in third place. But in the second period, with consumption and investment growth depressed after the financial crisis, the relative weight of exports increased considerably in these two countries and became a major growth driver.

Table 3. South Asia: Shares in the GDP growth rate, 1980-1990 and 1990-2004

Country	GDP Growth (% p.a.)		Consumption Share (% p.a.)		Government Share (% p.a.)		Investment Share (% p.a.)		Export Share (% p.a.)		Import Share (% p.a.)	
	80-90	90-04	80-90	90-04	80-90	90-04	80-90	90-04	80-90	90-04	80-90	90-04
Bangladesh	3.66	4.82	2.68	3.14	-0.01	0.33	0.84	1.51	0.28	1.21	-0.13	-1.37
India	5.63	5.60	3.06	3.16	0.77	0.61	1.76	1.97	0.47	1.62	-0.42	-1.76
Iran	2.63	4.33	2.43	1.46	-0.56	0.57	0.67	2.06	1.34	1.89	-1.24	-1.64
Nepal	4.59	4.33	4.04	2.79	0.55	0.62	0.82	1.59	0.40	1.13	-1.23	-1.79
Pakistan	6.09	3.91	3.82	2.83	1.29	-0.04	1.19	0.59	1.17	0.65	-1.37	-0.13
Sri Lanka	4.10	4.59	2.83	3.46	0.50	0.29	0.03	1.27	0.95	2.04	-0.20	-2.47
Mean	4.96	5.14	3.00	2.87	0.53	0.51	1.39	1.79	0.70	1.53	-0.65	-1.56

Source: Author's calculations based on World Bank: World Development Indicators (2007).

Table 4. East and South-East Asia: Shares in the GDP growth rate, 1980-1990 and 1990-2004

Country	GDP Growth (% p.a.)		Consumption Share (% p.a.)		Government Share (% p.a.)		Investment Share (% p.a.)		Export Share (% p.a.)		Import Share (% p.a.)	
	80-90	90-04	80-90	90-04	80-90	90-04	80-90	90-04	80-90	90-04	80-90	90-04
China	8.88	9.64	4.34	4.64	0.93	0.92	3.06	3.86	2.23	3.77	-1.67	-3.56
Hong Kong	6.20	4.15	3.37	2.59	0.53	0.55	1.11	0.63	11.11	11.03	-9.91	-10.65
Indonesia	6.18	4.21	4.18	3.02	0.43	0.32	2.37	0.57	0.93	1.63	-1.72	-1.33
Malaysia	5.81	6.10	2.82	2.22	0.64	0.78	2.24	0.94	5.64	9.50	-5.54	-7.34
Philippines	1.67	3.31	1.63	2.42	0.26	0.35	-0.05	0.17	0.82	2.97	-1.00	-2.60
Thailand	7.56	4.55	3.75	2.62	0.52	0.59	3.94	0.50	3.25	5.07	-3.90	-4.23
Vietnam	...	7.22	...	3.92	...	0.22	...	3.52	...	6.04	...	-6.48
Mean	7.20	7.62	3.80	3.86	0.69	0.75	2.46	2.64	3.41	4.59	-3.15	-4.22

Source: Author's calculations based on World Bank: World Development Indicators (2007).

Summary for country variations

In summary, the East and South-East Asian group displayed a more complex growth pattern over the past 25 years, largely on account of the crisis that occurred in the second period. Over the first period between 1980 and 1990 consumption growth accounted for the bulk of GDP growth for all the countries, except in Hong Kong (China) and Malaysia where growth was export-led in both periods. Consumption continued to be the main driver of GDP growth in China and Indonesia over the next period, 1990-2004, but both consumption growth and investment growth in Thailand and the Philippines were depressed with export growth taking over as the main driver.

Summary for the drivers of growth in the region

This analysis of the region's growth pattern has been limited and partial but it does account for over 90 per cent of the population of the region and shows consumption growth to account for the bulk of underlying GDP growth for most countries, except in the case of some smaller economies. It also shows that this primary driver of growth was affected by a financial crisis, reducing GDP growth, while other drivers such as exports rose but were unable to make up for the loss in aggregate demand.

While this form of accounting for growth demonstrates that increased consumption is the main long-term force driving development, the role of exports should not be discounted as the short- to medium-term catalyst of growth. The enormous and increasing labour pool in the Asia-Pacific region helps to make it very cost competitive, and it has become a location of choice for low-margin manufacturing production, such as clothing and textiles and basic electronics, and, increasingly, for higher-value added manufactured goods. Export growth induces competitiveness, not just in the limited export sector, but also in other tradeables. And this competitiveness is based upon significant increases in investment, capital use, technology, and skills levels. The quantitative impact of exports on demand in large population countries may be limited, but the qualitative impact on productive capacity is significant. There is also evidence to suggest that exporting industries have a relatively weak impact on employment and poverty.²⁹

4. The role of employment and wage income in growth

Employment and wage incomes

Consumption demand accounts for the bulk of GDP growth in the region, and in turn depends on the growth of income, which in the Asia-Pacific region depends in large part on employment and wages.

Table 5 disaggregates the region's employment into wage workers, employers, own account workers and contributing family workers. By 2006, wage employment comprised 36.7 per cent of total employment in the region – an increase from 30.5 per cent in 1996. In addition, the large categories of own account workers and contributing family workers, who are self-employed, comprise another 61.8 per cent of total employment, mostly in the informal economy. Their income is a mix of self-employment income and returns to capital and rental assets. The established convention is to allocate two thirds of the mixed income to self-

²⁹ N. Majid: *Globalization and poverty* (Geneva, ILO, 2003); and N. Majid: *What is the effect of trade openness on wages* (Geneva, ILO, 2004).

employment, and a third to capital and rental income.³⁰ Wage income thus accounts for some 77 per cent of the total incomes of the workforce, with the balance taking the form of returns to capital, including rental income.

Table 5. Status in employment (%), 1996 and 2006

	Wage & salary workers	Employers	Own-account workers	Contributing family workers
Developed Economies in Asia				
1996	82.5	3.2	9.1	5.2
2006	85.7	2.7	8.0	3.6
East Asia				
1996	32.4	2.8	33.4	31.4
2006	42.6	1.2	38.2	18.0
South-East Asia and the Pacific				
1996	33.0	2.1	34.8	30.1
2006	38.8	2.1	35.2	23.9
South Asia				
1996	18.4	1.5	45.2	34.8
2006	22.1	1.2	46.5	30.2
Asia-Pacific Total				
1996	30.5	2.3	36.2	31.0
2006	36.7	1.4	39.3	22.5

Source: ILO: Global Employment Trends Model (2007).

The employment-wage-consumption channel is thus a major determinant of growth in Asia and the Pacific and not just a residual driven by other factors. An example was the rise in real wages in China in the 1990s, which is increasingly powering the expansion of the domestic market in a new growth phase.³¹

The emergence of employment-wage-consumption-led growth as a major policy option serves to restore some balance to policy debates often dominated by a concentration on exports. Export growth in the late 20th century, met significantly by increasing import demand from the United States, has served Asia-Pacific economies well. However, the emergence of the most populous Asia-Pacific economies, such as China, India and Indonesia, has now brought a much larger part of the region's population into the global market. The size of these countries means that they cannot rely on export demand as the smaller, early tigers were able to do.

Imbalances in the global economy, especially the US trade deficit and Asian surpluses and some oil-producing countries are straining the current exchange rate and international finance regime. Looking to the future, the Asia-Pacific region is likely to need to reorient its growth strategies towards the expansion of consumer markets within the region.³²

³⁰ See M. Luebke: *Labour Shares, Integration Technical Brief* (Geneva, ILO, 2007).

³¹ Institute for International Labour Studies, Government of China; and Policy Integration Department, ILO, 2007, *Decent Work, Employment and Poverty Reduction in Urban China*, Beijing.

³² See A. Singh: *Globalization in industrial revolutions in India and China and labour markets in advanced countries – Implications for national and international economic policies*, ILO Working Paper (Geneva, forthcoming).

5. Conditions for the sustainability of consumption-employment-wage led growth

Balancing consumer demand with the expansion of productive capacity

Consumption is an important determinant of investment. Maintaining the consumption investment relationship in balance is a central but difficult task of macroeconomic management in a market economy. Crises and downturns affect employment and wages and therefore consumption, which in turn influence investment, thereby sparking a downward spiral that is costly and hard to reverse.

In the Asia-Pacific region, the relationship between employment growth and GDP growth – also known as employment elasticity – for the period 1991 to 2003,³³ illustrates the way this process feeds through the economy in times of crisis. The Asian financial crisis reduced employment elasticities in Indonesia, the Republic of Korea and the Philippines and kept them low in Thailand in the second half of the 1990s. Over a longer period most countries display an upward trend, with the exception of Bangladesh, India and the Islamic Republic of Iran in South Asia and the Pacific Island countries.³⁴

Sustainable real wage growth is tied to productivity. Productivity growth in the region has been robust, growing by 45 per cent over the decade to 2006, giving an annual growth rate of 3.8 per cent.³⁵ As can be seen in Table 6, the manufacturing wage has responded to this productivity increase in East and South-East Asia, but not so much in South Asia. Real wages in India, Pakistan and Sri Lanka actually dropped over the 1990s, while more recent data for India and Pakistan show a very tentative rise. Agricultural wages actually weakened in China over the 1990s and while they picked up in South Asia, they remained well below the minimum wage in Bangladesh, India and Pakistan.³⁶ A key question facing the region is therefore how to better translate productivity gains into higher real wages and thereby higher aggregate demand.³⁷

A declining wage share and rising profit share tends to lead to a faster growth in savings rather than in consumption, mainly due to higher income groups deriving a large part of their incomes from profits. Thus, shifts in the labour/capital shares and related alterations in the distribution of household income change the consumption-investment balance. A high savings rate, while lowering the cost of investment capital, can have the effect of retarding the growth of consumption and demand, which in the medium to longer term is the major determinant of investment.

Consumption in many developing countries is dependent on income from self-employment, which is synonymous with work in the rural and urban informal economy. Raising the low productivity underlying self-employment incomes requires a package of policies for informal operators aimed at reducing poverty by developing access to skills, education, credit, domestic and export markets, as well as the legal system. Market access is particularly important for the Asia-Pacific region's agriculture and fisheries through the Doha trade round.

³³ Employment elasticities in developing countries tend to be supply determined, in that since the working poor cannot afford to be unemployed, so employment growth just follows labour force growth. Furthermore, a decline in elasticity can be good, because productivity may have gone up, or bad, because labour demand has dropped. Employment elasticities therefore need to be interpreted with care; nevertheless they provide a useful indication of broad trends.

³⁴ ILO: *Labour and Social Trends in Asia and the Pacific: Progress Towards Decent Work*, op. cit.

³⁵ *Ibid.*

³⁶ Calculated from World Bank: *World Development Indicators* (2007).

³⁷ See ADB: *Key Indicators 2005: Labour Markets in Asia: Promoting Full, Productive, and Decent Employment* (Manila, 2005).

Table 6. Manufacturing wage indices, 1990, 1995, 2000-2003

	1990	1995	2000	2001	2002	2003
East Asia						
China	77.4	100	155.3	172.2	195.4	...
Korea, Rep. of	71.0	100	117.3	119.8	130.6	137.3
Mongolia	...	...	100.0	...	97.0	111.1
South-East Asia						
Cambodia	...	...	...	78.7	...	...
Indonesia	...	100	109.9	130.0	...	...
Lao PDR	...	...	...	...	...	...
Malaysia	80.0	100	118.6	129.1	...	...
Myanmar	...	...	...	...	...	...
Philippines	108.4	100	...	...	...	...
Singapore	73.5	100	134.4	136.7	138.8	143.0
Thailand	85.0	100	...	...	...	...
Timor-Leste	...	...	...	...	...	...
Viet Nam	...	...	...	...	...	...
South Asia						
Afghanistan	...	...	...	...	...	...
Bangladesh	...	...	...	...	...	...
India	134.3	100	73.4	104.4	...	...
Iran, Islamic Rep. of	...	100	122.0	128.0	...	...
Nepal	...	...	...	...	...	...
Pakistan	99.3	100	70.7	69.0	90.9	...
Sri Lanka	93.7	100	97.4	93.0	100.1	97.9
Pacific Islands						
Fiji	87.4	...	...	...	...	...
Kiribati	...	...	...	...	...	...
Papua New Guinea	...	...	...	...	...	...
Solomon Islands	113.9	100	...	...	...	...
Vanuatu	...	...	...	...	...	...
Developed (Industrialised Economies)						
Australia	93.6	100	106.0	...	110.9	...
Japan	...	100	103.6	105.9	106.4	106.8
New Zealand	...	100	107.7	106.8	107.6	110.6

Source: ILO: *Labour and Social Trends in Asia and the Pacific 2006: Progress towards Decent Work* (Bangkok, 2006), p. 100.

Social and economic sustainability: the role of social protection policies

Poverty can be reduced significantly when employment and real wage growth are sustained. However, rising unemployment and/or falling real wages have an equally significant poverty-increasing effect: a policy lesson brought home by the Asian financial crisis.³⁸

Consumption is a function of disposable income, which consists of earned incomes added to transfer incomes. Transfer incomes thus put a social floor under aggregate consumption, as well as meeting individual and family needs for social protection, especially for health care, income support during spells of unemployment, and for pensions at the end of a working life. Provision of health care and school education decreases distress savings for these

³⁸ E. Lee: *The Asian Financial Crisis – The Challenge for Social Policy* (Geneva, ILO, 1998).

costly contingencies, allowing both consumption and nutrition to rise and the incidence of poverty to fall.³⁹

The recent experience of China and India provide examples of income transfers as social stabilizers. In China, transfers through the Ministry of Civil Affairs top-up income to 22 million urban families falling below a designated poverty line. In India, the new National Rural Employment Guarantee Scheme is designed to guarantee 100 days per year of minimal employment per household in rural areas.

Maintaining the employment-wage-productivity-investment balance through tripartism and social dialogue

It is important to note that the consumption-employment-wage channel for growth depends both on employment and wages, as well as income measures aimed at reducing vulnerability. Sustaining development thus requires a balancing of both employment and wage growth alongside the extension of social protection. This way of looking at the growth process avoids the fallacy of viewing employment, wage and social protection as goals that are necessarily always in conflict with each other.

The challenge to policy-makers in achieving a steady growth trajectory in which the main macroeconomic variables are in balance is that in a market economy at the level of the individual firm, employment and wage cuts can reduce the firm's costs without immediate consequences of declining demand for its products. The consequences of declining incomes and aggregate demand are observed at the macro-level and over the medium term.

Institutional capacity to take such an economy-wide medium-term view is thus an important element in sustainable growth. Social dialogue between workers and employers and the government on an economy-wide level, especially if based on timely and sound information, can enable the tripartite partners to identify risks and find appropriate measures to maintain the employment/wage balance and with it consumption, productivity and GDP growth. Extension of social protection is a further important dimension for dialogue on sustainable growth. A number of Asia-Pacific countries strengthened the institutions of social dialogue after the Asian financial crisis, and this yielded important progress on key issues, such as minimum wage setting and social security.

6. Suggested key questions

This paper has sought to demonstrate that examining the growth and development process from the perspective of the demand drivers of economies yields important insights on the relationships between increasing employment, improving wages and working conditions, extending social protection and consumption. Furthermore, because employment and wages and the scope for income transfers depend also on productivity improvements, investment and enterprise development, this view on the policy balance needed for sustaining social and economic development in the Asia-Pacific region during the Asian Decent Work Decade and beyond highlights the centrality of the Decent Work Agenda.

³⁹ Government of China, Institute for International Labour Studies; and ILO: Policy Integration Department, 2007, op cit; M. Mahmood: *Poverty reduction in Pakistan: The strategic importance of macro and employment policy integration* (Geneva, ILO, 2006).

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?