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Recovery, job quality and policy priorities in developing Asia

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Abstract

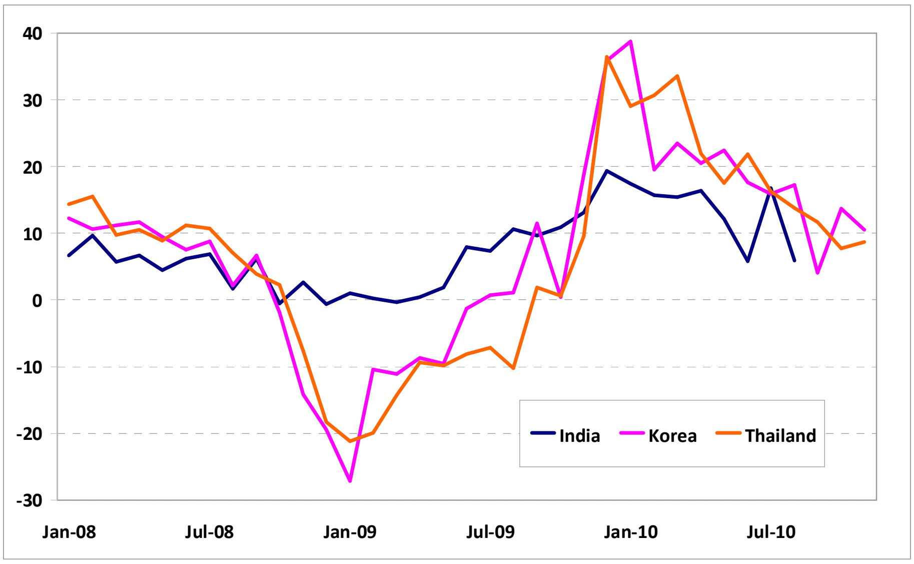
While the impact of the global economic and financial crisis was large on the economies of Asia and the Pacific, translating into squeezes on enterprises, widespread job losses, expanding informal employment and falling household incomes, the region has rebounded quickly and strongly. GDP growth figures indicate that economic growth in developing Asia accelerated to 9.3 per cent, compared with a resilient 7.0 growth in 2009. This strong growth rate, driven by China and India, reflects robust domestic demand, supported by macroeconomic stimulus measures and the revival of private investment and external demand. The region's labour markets have also shown some positive signs. Yet creating more and better jobs to reduce the region's decent work deficits remains a challenge. Building a more balanced and sustainable future much depends on drawing lessons from the crisis, choosing the right policy priorities and enhancing policy coherence. The paper highlights recent economic developments, examines labour market trends and identifies some emerging policy priorities in the post-crisis era, with a focus on job quality, social protection, infrastructure development and inclusive financial services.

1. Recent developments

In 2007 economic growth in developing Asia registered 11.4 per cent, the highest rate on record. This robust growth began to be threatened in 2008 as soaring energy and food prices weakened living standards, particularly of the poor, who spend a large share of their small incomes on food and fuel. In the second half of 2008 countries in the region began to bear the full brunt of the global financial and economic crisis, which quickly escalated into a global jobs crisis.

The impact of the crisis on developing Asia was far less severe than compared to other regions, but still was still disruptive enough to result in unemployment rising and employment quality deteriorating. In 2008 economic growth in developing Asia slowed to 7.7 per cent and moderated further to 6.9 per cent in 2009. These still respectable rates largely reflect the performances of China, India and Indonesia, where large domestic markets cushioned economies from collapsing global trade. In economies with smaller domestic markets and higher exposures to exports, recessions were recorded. In Cambodia, Malaysia, Singapore and Thailand economic growth turned negative in 2009, while other nations recorded recessions based on the definition of two successive quarters of economic contraction.

Figure 1: Industrial production growth, selected countries (%, year-on-year)



Sources: National Statistical Offices

After steep contractions in late 2008 and early 2009, industrial production and exports began to pick up across Asia in mid-2009 (figure 1). Large fiscal stimulus packages supported domestic demand and led to a rapid recovery in intra-Asian trade. Inventory restocking was a major driver behind the industrial-led recovery, as producers had made large cuts to output and stock levels in anticipation of a prolonged downturn that didn't materialize. Public works projects, low interest rates and in some cases directives to state owned banks to increase lending also supported the recovery.

By late 2010 economic growth had begun to moderate in most developing Asian economies, following a year of rapid expansion. By the third quarter of 2010 China's growth had slowed to 9.6 per cent from 11.9 per cent in the first quarter, while over the same period growth in the ASEAN-5 softened to 7 per cent from 10.5 per cent.[1] Fading boosts from fiscal stimulus and inventory restocking moderated growth, as did slowing growth within the region and in the G-3. Inflation had become a

[1] Based on an unweighed average of the five member states growth rates.

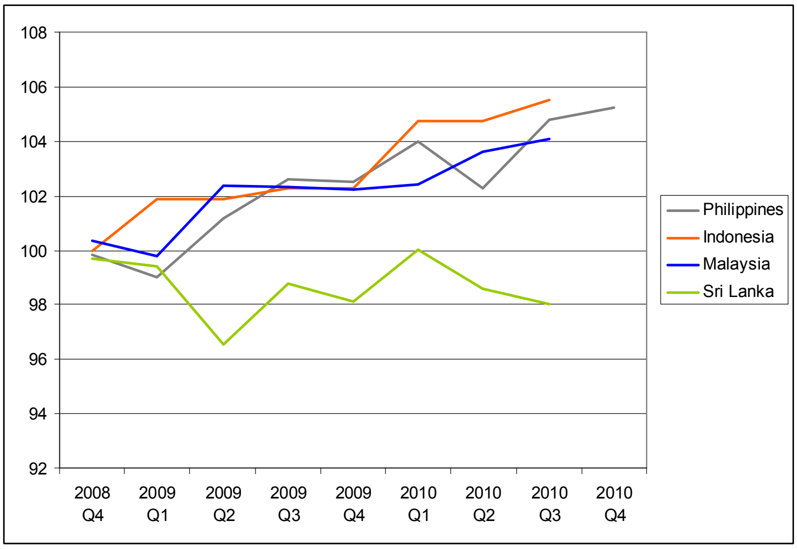
problem in many economies, prompting central banks to tighten monetary policy, which in turn weighed on business investment.

Growth is expected to moderate slightly in developing Asia during 2011. In its January World Economic Outlook Update the IMF projected developing Asia to grow by 8.4 per cent in both 2011 and 2012, slightly slower than an estimated expansion of 9.3 per cent in 2010 and an average growth rate of 9.6 per cent between 2003 and 2007. Smaller export oriented economies that benefitted strongly from rebounding Asian trade in 2010 will likely experience the sharpest moderations in growth (i.e. Cambodia, Malaysia and Thailand). Economies with large domestic markets and experiencing rapidly rising foreign investment inflows will probably experience a minor moderation in growth or possibly even a slight acceleration (i.e. China, India, and Indonesia).

2. Labour market recovery

While labour markets in developing Asia were significantly affected by the global economic crisis, with widespread job losses, expanding informal employment and dropping household incomes, the available data to date indicates that some of the region's labour markets are showing some positive developments. In Indonesia, Malaysia and the Philippines, employment levels have continued to increase (figure 2). On the other hand, the employment level in Sri Lanka in the third quarter of 2010 was two per cent lower than in the corresponding period of 2008.

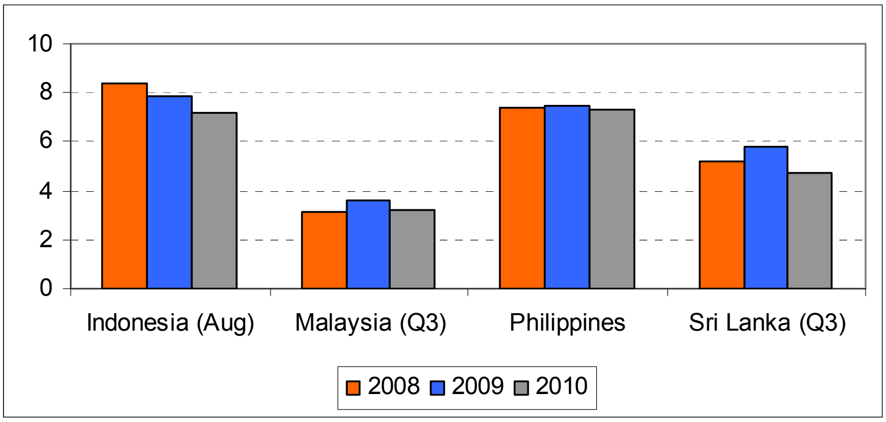
Figure 2: Trends in employment, selected countries (2008 Q3=100)



Source: National statistical offices.

While the employment growth in 2009 was insufficient to absorb the increasing labour force in Malaysia and the Philippines, leading to a rise in the unemployment rate in that year, employment growth has been stronger in 2010 and the unemployment rate has fallen to pre-crisis levels (figure 3). In Indonesia, the unemployment rate continued to decrease in 2008 and 2009. In Sri Lanka unemployment levels in the third quarter of 2010 were lower than the level in the same quarter of 2008, due largely to a steep decline in the labour force participation of women, which fell by 4.3 percentage points during this period (from 37.1 per cent to 32.8 per cent), aggravating even further the gender gap in labour force participation. Youth continue to face significant challenges in securing employment. While the adult unemployment rate fell between 2008 and 2010 in the Philippines and Sri Lanka, the youth unemployment rate (aged 15-24) increased in both nations.[2]

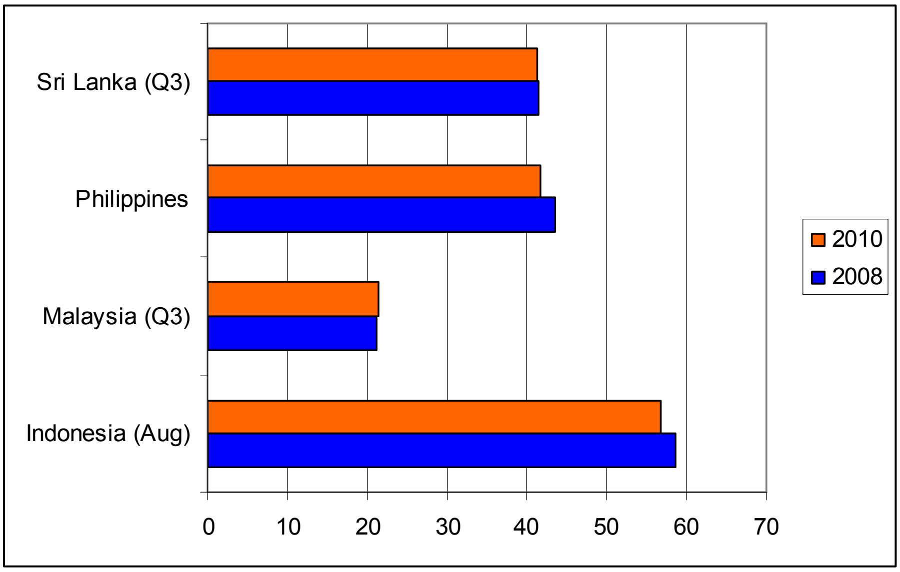
Figure 3: Trends in unemployment rates, selected countries (%)



Source: National statistical offices.

Progress on reducing vulnerable employment has also been mixed (figure 4). With recent strong growth in wage employment in Indonesia and the Philippines, the share of workers in vulnerable employment declined by 1.8 percentage points between 2008 and 2010 in both countries.[3] In these two countries however, there are still a large number of workers in vulnerable employment: 56.8 per cent in Indonesia and 41.7 per cent in the Philippines. In Malaysia and Sri Lanka the share of workers in vulnerable employment has not fallen since 2008.

Figure 4: Share of vulnerable employment in total employment, selected countries (%)



Source: National statistical offices.

For most economies the majority of employment growth since 2008 has been in the services sector (figure 5). In Sri Lanka, while total employment decreased between 2008 and 2010, employment in services expanded, resulting in the share of services in total employment increasing from 39.7 per cent in the third quarter of 2008 to 44.3 per cent in the same period of 2010. A key challenge is ensuring that

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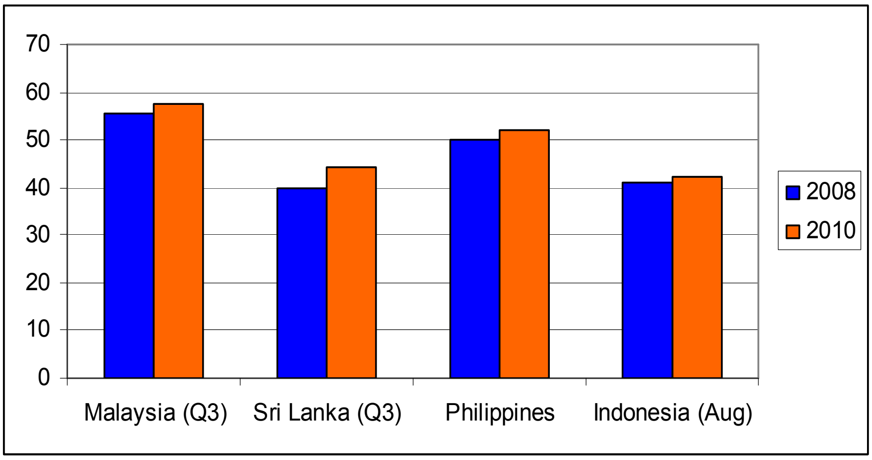
2 In the Philippines the youth unemployment rate rose from 17.4 per cent in 2008 to 17.6 per cent in 2010. In Sri Lanka the youth unemployment rate rose from 18 per cent in the third quarter of 2008 to 18.9 per cent in the same period of 2010.

3 Vulnerable employment is defined as the sum of own-account and contributing family workers.

the employment expansion in the services sector takes place in higher value-added activities given the heterogeneity of the sector. In Indonesia, the share of employment in services has grown from 40.9 per cent in 2008 to 42.3 per cent in 2010, but during this period, the "community, social and personal services" sub-sector experienced the strongest employment growth, and as a consequence its share in total employment increased from 12.8 per cent to 14.7 per cent.

Figure 5: Share of employment in services in total employment, selected countries (%)



Source: National statistical offices

Although unemployment is falling and employment is increasing improving the quality jobs remains a challenge in developing Asia; around half of all employment is either of a vulnerable nature or on an informal basis, while youth unemployment rates are high (19.9 per cent in Indonesia). In many economies women's participation rates are very low (India 23.4 per cent, Sri Lanka 30.4 per cent). With developing Asia having made a rapid recovery from the global economic crisis, policymakers must put in place policies to ensure that high growth rates are sustained and crucially, that growth results in rapid reductions in decent work deficits.

3. Policy priorities for the recovery and beyond

This section discusses some of the lessons learned from crisis responses in the Asia-pacific region and emerging policy priorities. It highlights the increasing emphasis on the quality of workforce, efforts to strengthen social protection, the importance of infrastructure development and the promotion of financial inclusion, especially for small- and medium-sized enterprises.

3.1 Increasing emphasis on the quality of the workforce

Almost all the economic stimulus packages included measures addressing existing skills mismatches and the improving the employability of the workforce. Some programmes trained jobseekers to improve their chance of finding employment; others targeted the employed to upgrade their skills during periods of idle demand, while keeping them attached to the enterprise.

With the regional recovery underway by early 2010, education and training policies shifted from tackling short-term urgencies to addressing broader challenges, especially the quality of the workforce to increase longer-term growth potential. Many countries introduced major reforms to their education and training policies. The steps taken depended on national circumstances, but in most cases focused on increased public spending on human resources development, market-orientation, private sector involvement and quality-based training delivery.

Among higher middle-income countries, Malaysia provides a good example of how national priorities have shifted from crisis response to improving workforce quality and skills upgrading. Malaysia's New Growth Strategy, unveiled in March 2010, outlined a reform programme aimed at allowing the country to become a developed nation by 2020.[4] The programme intends to support economic diversification and private sector growth with measures such as boosting the quality of the workforce through improving the education system, especially higher education.

Singapore offers another example. Singapore's 2010 budget announced in March marked a dramatic shift from a more reactive crisis response in the previous two years, to a new, more proactive budget, with polices centred on long-term productivity gains for sustained and inclusive growth. More than 10 per cent of budget was earmarked for boosting productivity, upgrading skills and creating a National Productivity and Continuing Education Council to coordinate the nation's various productivity and training initiatives. In presenting the budget, the Finance Minister stated that "our priority during last year's global crisis was to keep jobs. Our priority must now be to improve the quality of jobs". [5]

Low-income and lower middle-income countries with employment shares dominated by agriculture and informal employment tended to focus on broadening access to secondary, technical and vocational education, while improving service delivery. Some economies are yet to achieve even universal basic education, while large gender gaps are present in enrolment rates in a number of economies. India's recent education bill provides a good example of how to address this problem. In April 2010, the government announced a landmark law, which makes free education a fundamental right for all children aged between 6 and 14.[6]

Many countries in the region have encouraged public-private partnerships for planning, financing and standard-setting training programmes. Bangladesh, Indonesia, Malaysia and Viet Nam have created mechanisms for close industry involvement. Measures implemented include the introduction of quality assurance and accreditation process, training of trainers and improved management capacity that needs to be in place to achieve progress. Increasingly critical and relevant skills are employability skills and core work skills.

3.2 Strengthening social protection

Many governments recognized the importance of social protection during the crisis and stepped up their efforts in their overall policy response. Given the urgent need for action, policy makers focused on up-scaling existing schemes including social transfer programmes (ranging from food provision to subsidized utilities and cash transfers targeting the poor and vulnerable) and public works schemes.

There have been some important lessons learned from crisis responses:

- *Improving the protection of the near poor.* Measures often failed to reach the group worst (and first!) affected by the crisis: the near poor who had escaped poverty in the good years prior to the crisis

[4] L. Gooch: "Malaysia outlines new growth strategy", in *The New York Times*, 30 Mar. 2010. http://www.nytimes.com/2010/03/31/business/global/31ringgit.html?_r=1 (accessed 3 May 2010).

[5] Singapore Government: *Budget Speech 2010: Towards an Advanced Economy: Superior Skills, Quality Jobs and Higher Income,* http://www.mof.gov.sg/budget_2010/speech_toc/download/FY2010_Budget_Statement.pdf (accessed 3 May 2010); and

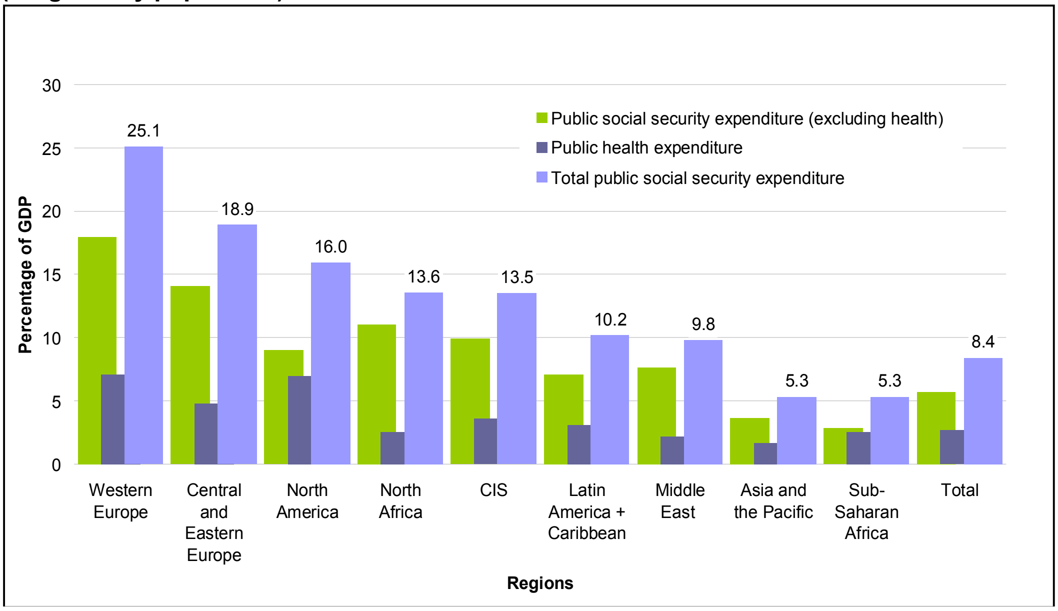
M. Wijaya: "In Singapore, productivity at all costs", in *Asia Times Online*, 23 Mar. 2010, http://www.atimes.com/atimes/Southeast_Asia/LC23Ae01.html (accessed 3 May 2010).

[6] AFP: "India pledges education for all children", in *Khaleej Time Online*, 1 Apr. 2010, http://www.khaleejtimes.ae/DisplayArticle08.asp?xfile=data/international/2010/April/international_April33.xml&section=international (accessed 3 May 2010)

and who faced the prospect of slipping below the poverty line as they lost their jobs in urban export-oriented industries. Unemployment insurance could have slowed the transmission of the crisis from urban to rural areas. However, very few countries in the region have a proper unemployment insurance system, and even higher-income economies such as Malaysia and Singapore are not exceptions.

- *The role self-targeting and automatic stabilizers.* Programmes with self-targeting component that encourage beneficiaries to enroll when in need and drop out when better opportunities arise, have produced better outcome and required lower costs than across-the-board measures such food and utility subsidies. One such example is India's National Rural Employment Guarantee Scheme, which offers 100 days of work per family in rural areas at the minimum wage for agriculture and is complemented by a social security scheme in the informal economy and a national health insurance scheme for unorganized workers. Another example of a self-targeting 'automatic stabilizer' is unemployment insurance for workers in the formal economy. Evidence suggests that automatic stabilizers have a more prompt and consistent countercyclical effect than do discretionary policies (IMF 2008), and that their fiscal cost automatically declines when the number of beneficiaries falls back.
- *Protecting human capital.* In the area of supporting poor households to keep their children in education and out of work, the most effective programs are those that combine measures to lower educational costs with incentives for parents to keep children in school, for example by giving affordable access to regular medical checks. Indonesia and the Philippines have implemented this kind of conditional cash transfer in 2007 and up-scaled it as part of its crisis policy response (Ravallion 2008; Das, Do, and Ozler 2004).[7]
- *Investing more in social protection.* The crisis has brought to the spotlight how weak social protection in the region is and how little governments spend on it, despite spectacular economic advances in the past decades. Out of all regions, Asia-Pacific is tied-up with Sub-Saharan Africa for public spending at lowest level on health and social security (figure 6).

Figure 6: Total public social protection spending as a proportion of GDP (%) (weighted by population)



Source: ILO, 2010a, p. 81.

[7] There is evidence from impact evaluations that conditional cash transfers bring real benefits to poor households in terms of both current and future income through increased investment in child schooling and health care.

There is now a growing recognition that increasing public spending on social protection is critical in the post-crisis era for four main reasons. Building a social protection floor – which could include basic health care, minimum income support for families with children, the elderly, the working poor and vulnerable groups such as persons with disabilities, and other features that vary according to country needs and stages of development – could:

- reduce poverty;
- strengthen the resilience of societies to future economic shocks;
- reduce the cost of adjustment to changing economic conditions (for both workers and business), thereby improving market efficiency and supporting the move to more balanced and sustainable growth path; and
- support consumption and domestic demand as improved social security, health and education services could reduce the need for precautionary savings by households for old age, illness and tuition costs.

Providing a comprehensive social protection floor for all citizens is an affordable option for many developing economies. An ILO cost simulation based on 2005 data found India, Pakistan and Viet Nam could afford to provide a basic social protection package that would cover all citizens from their existing budget allocations, while Bangladesh and Nepal could finance the majority of their packages through fiscal reform (ILO 2008, Mizunoya 2006).

In the post-crisis era, many Asian developing economies have introduced elements of a social protection floor, including universal or targeted health care (Viet Nam, Indonesia, Thailand, India, and China), minimum old-age pension (China and Thailand), free education (Indonesia and Thailand) – just to name a few examples.

Box 1: Building a social protection floor in China

China has made remarkable progress in extending social protection coverage to all in need. The main policy measures include:

- Two minimum living standards guarantee schemes, which provide income security to both urban and rural residents who maintain a revenue level below the locally-defined income threshold. Since 2007, these benefits have become universally available. In 2008, there were a total of 66 million beneficiaries, nearly 5 per cent of the total population.
- The new health insurance programmes that target the rural and economically inactive populations (mainly the elderly and the children), which are in addition to the long existing health insurance scheme for the urban working population. Despite participation remaining voluntary, at the end of 2009, a total of 1 billion people were covered under these new schemes. Combined with those already covered under the existing scheme for the urban working population, 1.2 billion out of the national population of 1.3 billion now have access to basic health care protection.
- A rural pension system which started to pilot in several areas in 2009, with the ultimate aim of covering all of the rural population by 2020. Under the system, a universal pension starting at a minimum of CNY55 per person per month, is payable to all rural residents aged 60 and above on the condition that their family has participated in the new rural pension system. A saving account-derived pension can also be maintained in addition to the new rural pension.

Source: Social Protection Floor Initiative, SPF country brief: China; www.socialsecurityextension.org

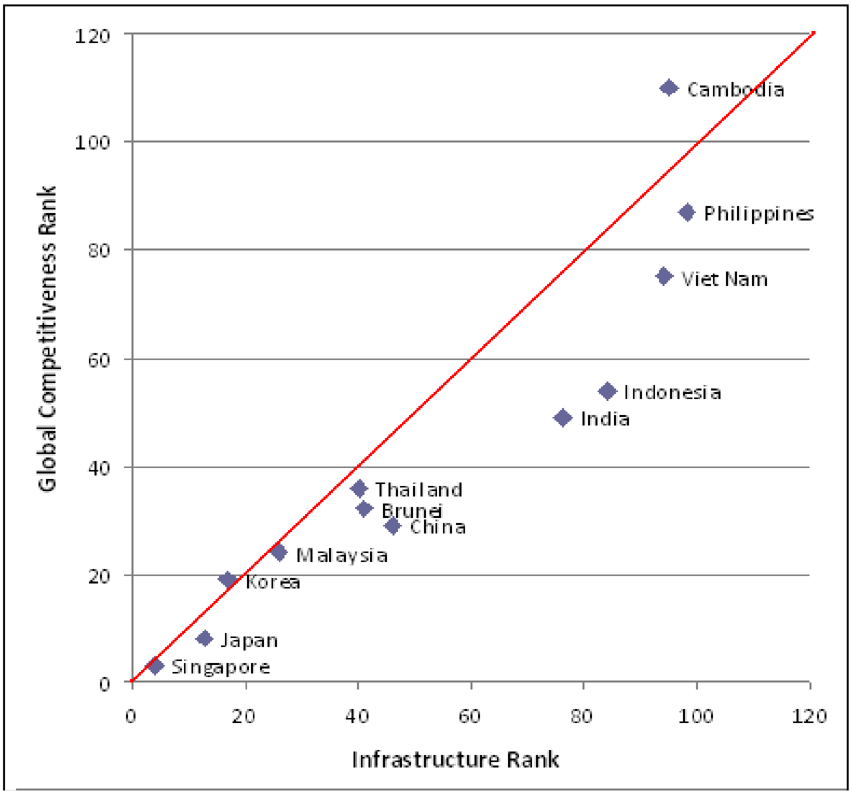
For progress made, perhaps China is the best example of gradually building a social protection floor (box 1). But here has been recent progress in Viet Nam and Cambodia as well. In the latter, the government is developing and piloting a National Social Protection Strategy for the poor and vulnerable. There has also been also growing interest in unemployment insurance, with feasibility studies under way in Malaysia and the Philippines.

4.3 Infrastructure development remains a priority in the post-crises era

Investment in infrastructure was a major, in many countries the largest, component of stimulus measures. It played a key role in creating jobs and supporting consumption, while over time increased infrastructure will improve competitiveness and expand markets. In addition, the quality and extensiveness of infrastructure networks significantly could reduce poverty and income inequality by enabling less developed communities to connect to product markets and social services.

Infrastructure development remains a priority in the post-crises era as the need for infrastructure is pronounced throughout the region for high, middle- and low-income countries. Ten of the 12 countries for which data are available have a lower infrastructure ranking than their overall competitiveness ranking (figure 7). Poor infrastructure in energy, transport and telecommunications sectors remains an impediment to growth in many parts of developing Asia. The primary reason for this has been the low level of public spending on infrastructure over the past decades. Even in some areas where recent returns on investment have been high, infrastructure investment has been modest by global standards. For example, despite rapidly growing business processing industries and booming mobile phone markets, South Asian economies rank poorly in terms of investment in information and communications technology.[8] In 2009 investment in India's ICT infrastructure amounted to 4 per cent of GDP, compared to a global average of 5.9 per cent (WB 2010).

Figure 7: Global Competitiveness and Infrastructure Ranks, selected countries, 2009/10



Source: World Economic Forum, Global Competitiveness Index Analyzer 2009-2010

Improvement in infrastructure could place countries such as Indonesia, India and Viet Nam not only on a stronger growth trajectory but it could support domestic demand, create millions of jobs and reduce inequalities and poverty. Moreover, better infrastructure is also a prerequisite for deeper regional

[8] Based on the World Development Indicators, South Asian nations ranked amongst the lowest in terms of investment in ICT infrastructure as a proportion of GDP. Of 69 nations with available data, Sri Lanka ranked 58th, Pakistan ranked 59th, while India ranked 61st.

integration driven by the ASEAN commitment to create a single market by 2015 and the prospect for slower economic growth in major markets in the medium-term, especially in the G3 countries. In April 2010, the ASEAN Leaders' Statement on "Sustainable recovery and Development" re-affirmed the importance of infrastructure development. It emphasized that infrastructure and connectivity "will play a crucial role in achieving sustainable global economic recovery through enhanced trade, investment, tourism and development."[9]

To meet infrastructure needs, scaling-up of public investment and improvements in the quality of spending are needed in many countries in the region. Public investment programmes can be stepped up where there is fiscal space. Often this would require budget reforms aiming to improve administrative capacity, spend efficiently and facilitate the implementation of capital projects.

Although public funds are important, governments alone cannot meet the large funding requirements for necessary infrastructure investment in the coming years.[10] Removing barriers to private investment and encouraging foreign investment can help to meet the infrastructure challenge. Success in these areas depends on improvements in the quality of infrastructure services and reduction in their costs. Public policy reforms that enhance competition and a market-based regulation can encourage private investment in infrastructure. Greater use of public-private partnership, if well managed, could potentially allow the public sector to take advantages of private sector efficiencies.

4.5 Promoting inclusive financial services

Small enterprises typically do not have proper financial records and they also often lack acceptable collateral. All these factors tend to raise the costs of processing loans applications and reduce the attractiveness of the sector for financial markets. These problems became particularly serious during the global economic and financial crisis, prompting policy makers in many countries to introduce SME support programmes with a special focus on improving availability of financing.

In the post crisis era, there has been a growing interest in identifying lessons learned on how to enhance financial inclusion systematically to increase access to credit for the private sector, especially small- and medium-sized enterprises.[11] Enhancing financial inclusion is a key component of a pro-employment framework promoting balanced, sustainable and job-rich development (ILO 2010b). Addressing the problem of access to finance for SMEs in a sustainable manner requires finding cost effective channels for granting a large number of small loans to a heterogeneous set of small firms. Many countries have made progress. For example, in 2008 India announced a National Rural Financial Inclusion Plan, which set the target of providing financial services to all excluded rural households by 2015. And in Bangladesh the central bank has taken steps to increase the flow of credit to micro and small enterprises and promote the provision of financial services to groups lacking access.[12]

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[9]ASEAN Leaders' statement on sustained recovery and development, Hanoi, 9 Apr. 2010.

[10]For example it is estimated that India requires around US$150 billion for the creation and maintenance of infrastructure (Sakhoo, 2010). This would amount to 62 per cent of total expenditure in the union budget for 2010-2011, as opposed to the approximately 16 per cent allocated for infrastructure development in the budget.

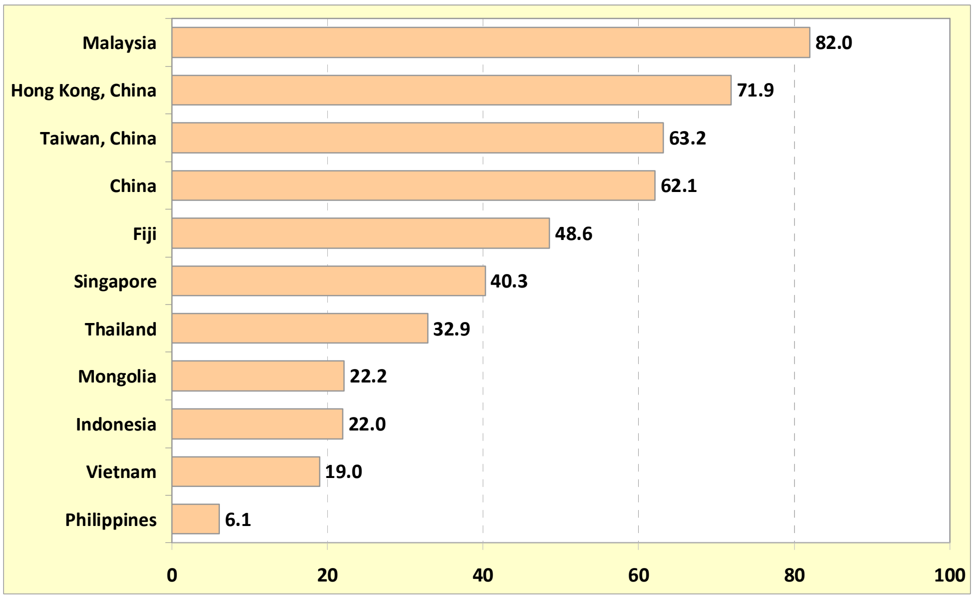
[11]Financial inclusion is also critical for micro enterprises that often cater to the needs of the poor and vulnerable households who seek durable self-employment. The issue of effective microfinance institutions is beyond the scope of the paper.

[12] Reuters: "Bangladesh doubles credit for small enterprises", 7 Nov. 2010, http://in.reuters.com/article/2010/11/07/bangladesh-economy-sme-idINSGE6A602F20101107 (accessed on 21 Mar. 2011)

Some lessons learned in the region point to the role of specialised market institutions such as credit information systems and collateral registers coupled with adequate legal frameworks for secured transactions. Credit information registries that collect and make available data on loan repayments help lenders to better assess risk and lower the costs of processing loan applications. Recent research suggests that the probability of lending to SMEs increases with the coverage of credit information system in a country (Mylenko 2011).

The availability of credit information is a particularly acute problem in South Asia while a number of countries in East and South-East Asia have made significant progress. In China, credit information coverage increased from zero to 62 per cent in recent years. Indonesia, Mongolia and Thailand have also made progress (Figure 8). Another important innovation offering great promise for improving SME's access to finance is a secured transaction registry. Registration enabling the use of moveable collateral not only can ease access to credit for SMEs but can also help unlock the stock of receivables on firms' books and facilitate recovery in the economy. However, the use of moveable collateral, including receivables, is still limited in developing Asia.

Figure 8: Credit information registry coverage in East Asia and the Pacific (% of adults)



Source: Mylenko (2011)

As many developing economies in the region reform their financial infrastructures, these examples highlight the importance of enabling public policy in implementing innovative scaleable solutions for enhancing inclusive access to finance for SMEs. But other measures are also critical, including support to workforce education and addressing informality. These include, among others, creating a regulatory and legal environment conducive to micro and small enterprises, helping small firms integrate into markets through trade and value chains, providing effective business support services catering to the needs of SMEs, extending adequate social protection to workers in small firms and promoting social dialogue and democratic governance.

Conclusions

The impacts of the global economic and financial crisis was large on the economies of Asia and the Pacific, translating into squeezes on enterprises, widespread job losses, expanding informal employment and falling household incomes. Strengthening the recovery and building a more balanced and sustainable future much depends on drawing lessons from the crisis, choosing the right policy priorities and enhancing policy coherence.

Four policy areas are likely to be of particular relevance for countries in the Asia and the Pacific region in this regard. The first is increasing the quality of the workforce to increase longer-term growth potential. The second is gradually building a social protection floor and other "automatic stabilizers" of social protection within a framework of fiscal sustainability strengthen the resilience of societies to future economic shocks and support consumption and domestic demand. The third is increased investment in infrastructure, which can in the short-term create jobs and in the longer term reduce poverty and income inequality by enabling less developed communities to connect to product markets and social services. The fourth is support to SMEs, with a special focus on improving availability of financing.

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