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RECOVERY, JOB QUALITY AND POLICY PRIORITIES IN DEVELOPING ASIA 3

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3.1 INTRODUCTION

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. However, the region rebounded quickly and strongly as economic growth in developing Asia accelerated to 9.3 per cent, compared with a resilient 7.0 per cent 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 long-standing decent work deficits remains a challenge. This chapter 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.

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3.2 RECENT DEVELOPMENTS

The impact of the crisis on developing Asia was far less severe than in other regions, but still was disruptive enough to result in unemployment rising and employment quality deteriorating. In 2008 economic growth 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 exposure 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.

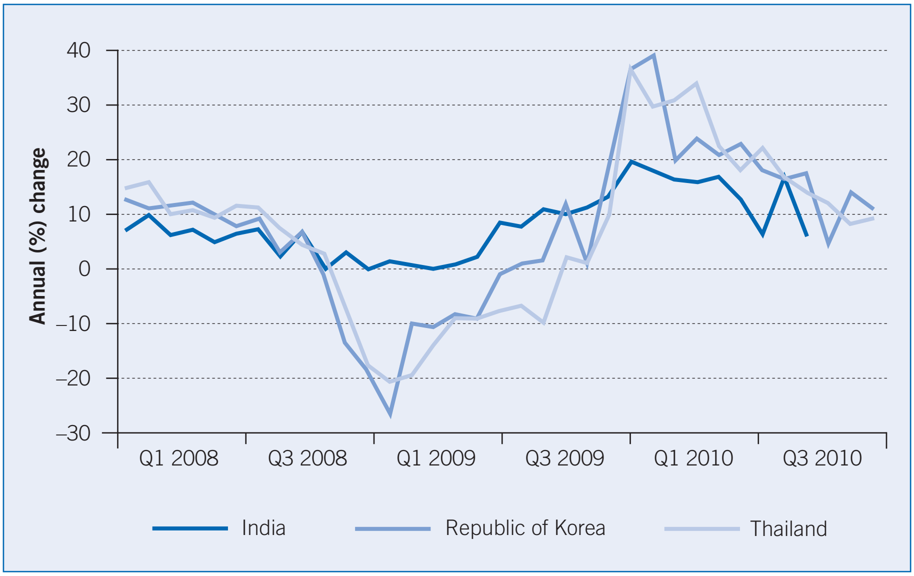
The economic crisis affected most Asian countries through the channels of foreign direct investment (FDI) and exports. Manufacturing production in Asia was largely export-driven and, as the crisis hit, industrial production and exports declined in a number of countries. The immediate impact of the crisis was therefore job losses and consequent declines in household incomes. In China, job losses from large factory closures – caused not only by the crisis but also by industrial restructuring to higher value-added production prior to it – forced more than 20 million retrenched workers to return to the countryside in pursuit of rural employment (for a detailed discussion see Government of Malaysia, 2009; CIDS, 2010; Huynh et al., 2010).

After steep contractions in late 2008 and early 2009, industrial production and exports began to pick up across Asia in mid-2009 (figure 3.1). 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 did not materialize. Public works projects, low interest rates and in some cases improved access to finance 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 declined 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 G3. Inflation had become a problem in many economies, prompting central banks to tighten

[1] Based on an unweighted average of the five Member States' growth rates.

Figure 3.1 Industrial production growth, selected countries, 2008–2010 (percentages)



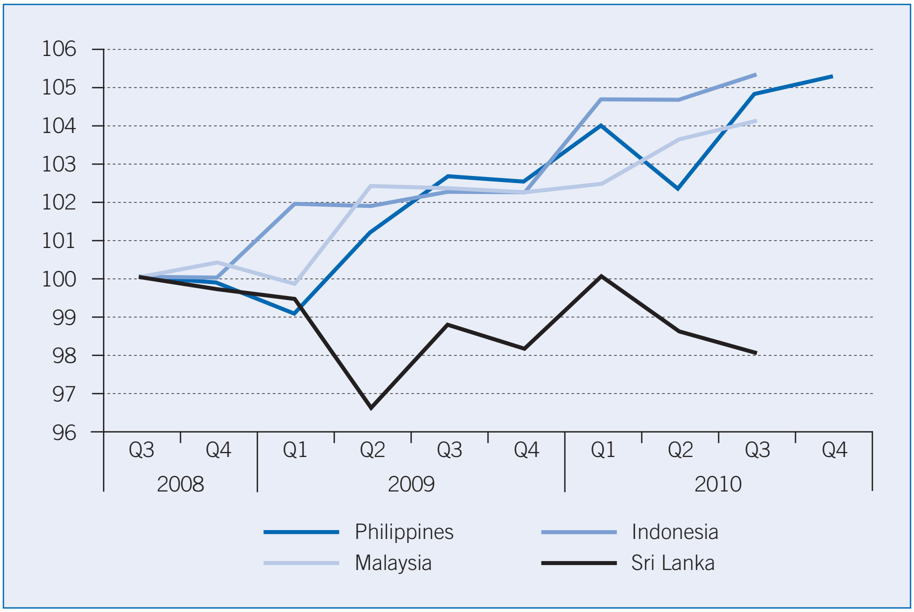
Source: National statistical offices.

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 (IMF, 2011). Smaller export-oriented economies that benefited strongly from rebounding Asian trade in 2010 are likely to experience the sharpest moderations in growth (Cambodia, Malaysia and Thailand). Economies with large domestic markets which are experiencing rapidly rising foreign investment inflows will probably experience a minor moderation in growth or possibly even a slight acceleration (China, India and Indonesia).

3.3 LABOUR MARKET RECOVERY

Labour markets in developing Asia were significantly affected by the global economic crisis, with widespread job losses, expanding informal employment and dropping household incomes (for a detailed discussion see Huynh et al., 2010). The available data so far indicates that some of the

Figure 3.2 Trends in employment, selected countries, 2008–2010 (Q3 2008 = 100)

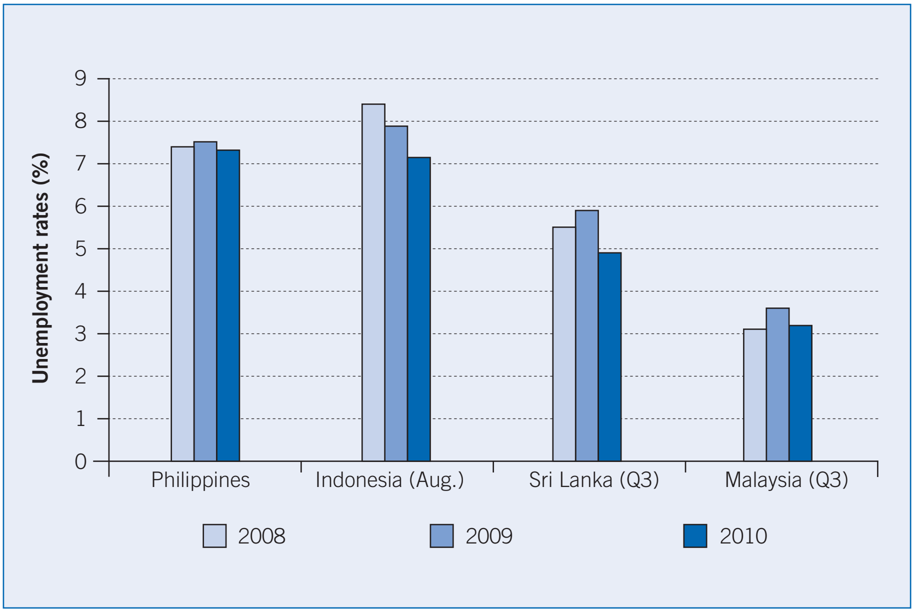


Source: National statistical offices.

region's labour markets are showing positive developments. In Indonesia, Malaysia and the Philippines, employment levels have continued to increase (figure 3.2). On the other hand, the employment level in Sri Lanka in the third quarter of 2010 was 2 per cent lower than in the corresponding period of 2008. Furthermore, developing countries continue to face longer-term labour market challenges that pre-date the crisis.

While 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 3.3). 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

Figure 3.3 Trends in unemployment, selected countries, 2008–2010 (percentages)



Source: National statistical offices.

in the Philippines and Sri Lanka, the youth unemployment rate (aged 15–24) increased in both nations.[2]

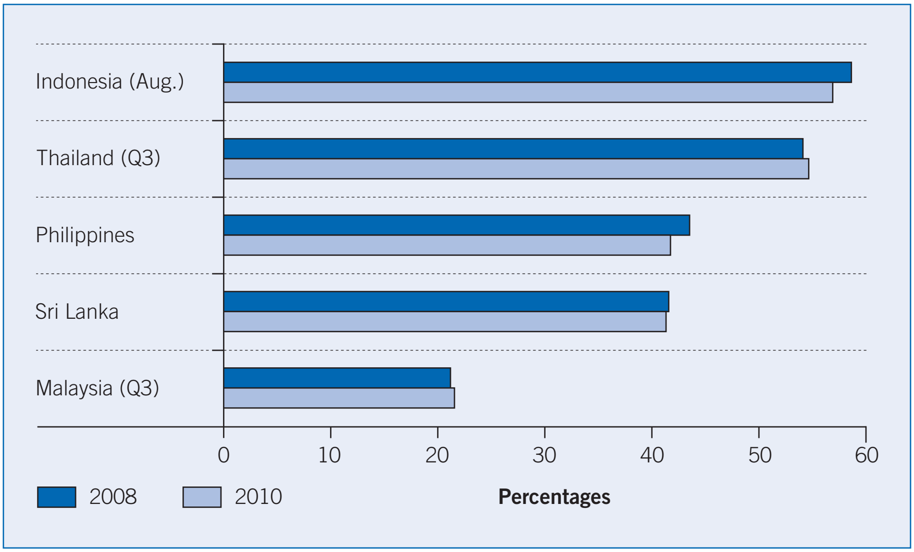
Progress on reducing vulnerable employment has also been mixed (figure 3.4). With recent strong growth in wage employment in Indonesia and the Philippines, the share of workers in vulnerable employment declined by 1.8 percentage points between 2008 and 2010 in both countries.[3] There is still a large 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.

For most economies the majority of employment growth since 2008 has been in the services sector (figure 3.5). In Sri Lanka, while total employment decreased between 2008 and 2010, employment in services expanded, resulting in the share of services in total employment

[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 it rose from 18 per cent in the third quarter of 2008 to 18.9 per cent in the same period of 2010.

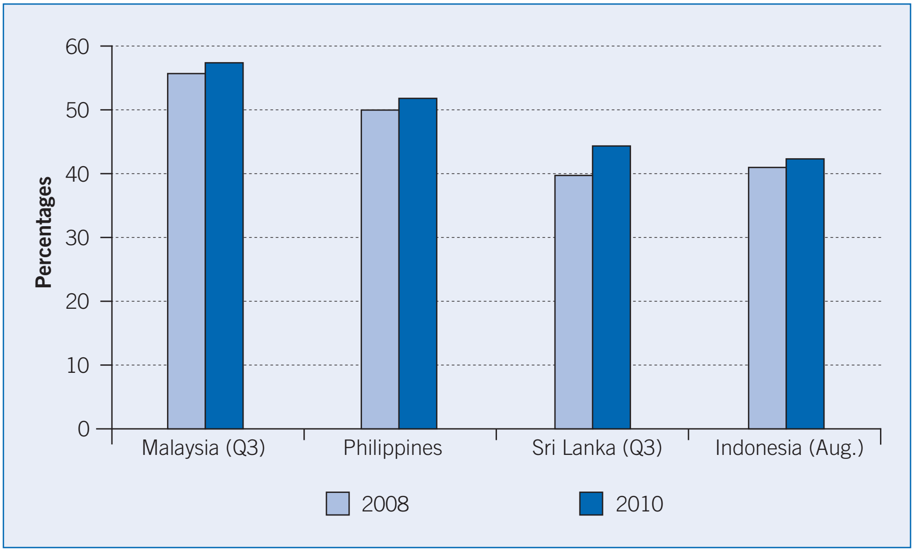
[3] Vulnerable employment is defined as the sum of own-account and contributing family workers.

Figure 3.4 Share of vulnerable employment in total employment, selected countries, 2008 and 2010 (percentages)



Source: National statistical offices.

Figure 3.5 Share of employment in services in total employment, selected countries, 2008 and 2010 (percentages)



Source: National statistical offices.

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 to ensure that 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" subsector 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.

Although unemployment is falling and employment is increasing, improving the quality of 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). Another challenge pre-dating the crisis, and which may in fact have contributed to it, is rising income inequalities and a weak link between wage and productivity growth (for further discussion see IILS, 2008 and ILO, 2010d). In India, for example, the share of wages in output has continued to decline in the past two decades (IILS, 2010). While developing Asia has made a rapid recovery from the global economic crisis, it continues to face a number of critical challenges and policy-makers must put in place policies to ensure that high growth, equity and reductions in decent work deficits occur in tandem. Attention must also be paid to rapidly rising food prices, which have the biggest impact on the poor and have exacerbated the long-standing problem of wide inequality gaps. In South Asia food prices have risen at a particularly sharp pace. In India the food group component of the industrial workers' consumer price index increased by 31.4 per cent between January 2009 and January 2011.

3.4 POLICY PRIORITIES FOR THE RECOVERY AND BEYOND

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

3.4.1 Increasing emphasis on the quality of the workforce

With the regional recovery under way by early 2010, education and training policies shifted from tackling short-term urgencies to addressing broader challenges, especially the quality of the workforce, in order to increase long-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 (Gooch, 2010). 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 policies centred on long-term productivity gains for sustained and inclusive growth. More than 10 per cent of the 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" (Government of Singapore, 2010; Wijaya, 2010).

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 (AFP, 2010).

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

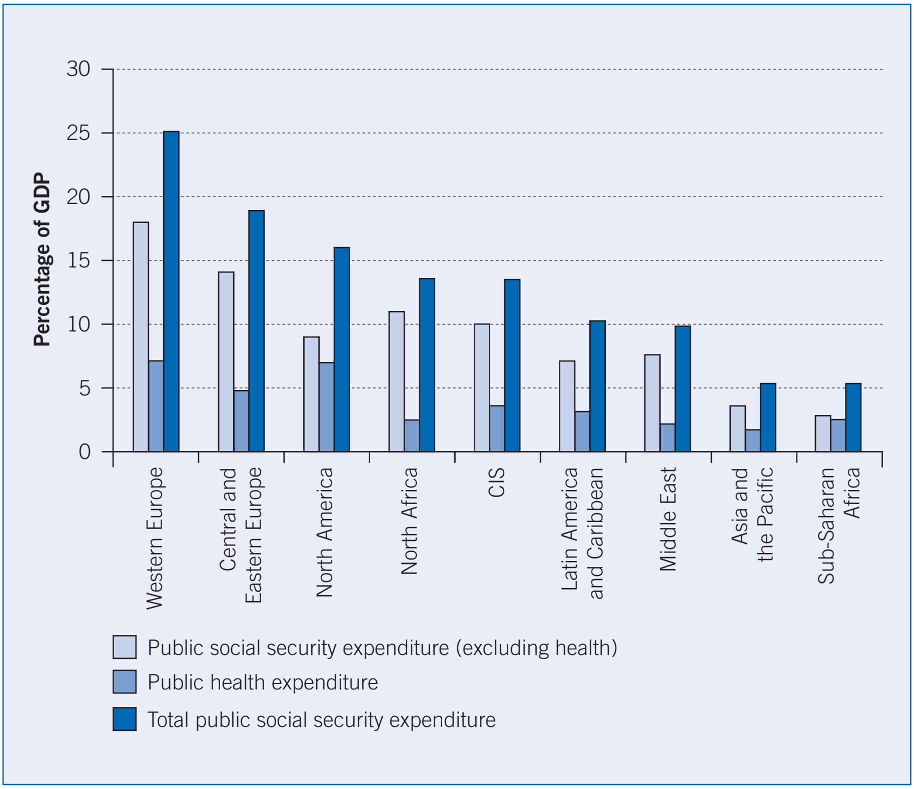
Core labour standards and social dialogue are not only central to enhancing the quality of the labour force through stimulating improved productivity, better working conditions and increased investment in the workforce, but can also ensure that labour incomes grow in line with productivity and hence contribute to a more sustainable and inclusive growth.

3.4.2 Strengthening social protection

Many governments recognized the importance of social protection during the crisis and stepped up their efforts in their overall policy responses. Given the urgent need for action, policy-makers focused on scaling up existing schemes, including social transfer programmes and public works schemes. Some important lessons have been learned:

- *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, now 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.
- *The roles of self-targeting and automatic stabilizers.* Programmes with self-targeting components that encourage beneficiaries to enrol when in need, and drop out when better opportunities arise, have produced better outcomes and required lower costs than across-the-board measures, for example India's National Rural Employment Guarantee Scheme. Evidence suggests that self-targeting schemes and automatic stabilizers have a more prompt and consistent countercyclical effect than do discretionary policies (IMF, 2008a), and that their fiscal cost automatically declines when the number of beneficiaries falls back.
- *Protecting human capital.* In encouraging poor households to keep their children in education and out of work, the most effective programmes are those that combine measures to lower educational costs with incentives for parents to keep children in school,

Figure 3.6 Total public social protection spending as a proportion of GDP, by region (percentages, weighted by population)



Source: ILO, 2010f (p. 81, figure 8.1).

for example by giving affordable access to regular medical check-ups. Indonesia and the Philippines implemented this kind of conditional cash transfer in 2007 and scaled them up as part of their crisis response (Ravallion, 2008; Das et al., 2004).[4]

- *Investing more in social protection.* The crisis has brought to light 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 world regions, Asia and the Pacific and sub-Saharan Africa have the lowest levels of public spending on health and social security (figure 3.6).

[4] 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 important in the post-crisis era for four main reasons. Building a social protection floor – which could include basic health care and 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:

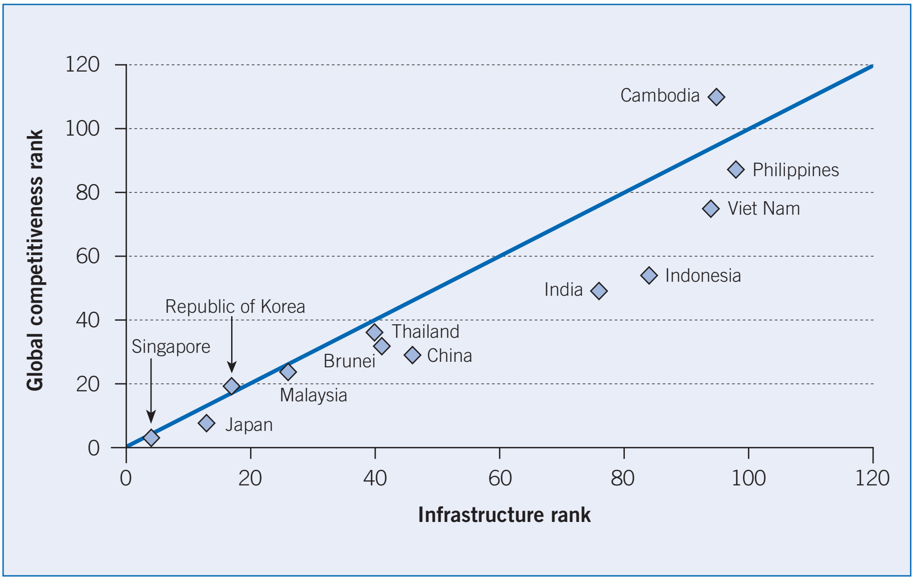
- reduce poverty;
- strengthen the resilience of societies to future economic shocks;
- reduce the cost of adjustment to changing economic conditions; and
- support consumption and domestic demand.

Providing a comprehensive social protection floor for all citizens is an affordable option for many developing economies (for details see Chapter 12 in this volume). In the post-crisis era, many Asian developing economies have introduced elements of a social protection floor, including universal or targeted health care (China, India, Indonesia, Thailand and Viet Nam), a minimum old-age pension (China and Thailand) and free education (Indonesia and Thailand). In Cambodia, the Government is developing and piloting a National Social Protection Strategy for the poor and vulnerable. There has also been growing interest in unemployment insurance, with feasibility studies under way in Malaysia and the Philippines.

3.4.3 Infrastructure development

Investment in infrastructure was a major component of stimulus measures during the crisis – in many countries the largest. It played a key role in creating jobs and supporting consumption (for details see Chapter 10 in this volume), while, over time, increased infrastructure will improve competitiveness and expand markets. In addition, the quality and extensiveness of infrastructure networks could significantly reduce poverty and income inequality by enabling less developed communities to connect to product markets and social services. Infrastructure development therefore remains a priority in the post-crisis 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 3.7). 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

Figure 3.7 Global competitiveness and infrastructure rankings, selected countries, 2009–2010



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

level of public spending on infrastructure over the past decades.

Improvement in infrastructure could not only place countries such as India, Indonesia and Viet Nam on a stronger growth trajectory but could support domestic demand, create millions of jobs and reduce inequalities and poverty. Better infrastructure is also a prerequisite for deeper regional integration driven by the ASEAN commitment to create a single market by 2015 and the prospect of slower economic growth in major markets in the medium term, especially in the G3 countries. The importance of infrastructure development was reaffirmed in April 2010, through the ASEAN Leaders' statement on sustainable recovery and development (ASEAN, 2010).

To meet infrastructure needs, a 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, with 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 the necessary infrastructure investment in the coming years.[5] Removing barriers to private investment and encouraging foreign investment can help to meet the infrastructure challenge. Public policy reforms that enhance competition and market-based regulation can encourage private investment in infrastructure. Greater use of public–private partnerships, if well managed, could potentially allow the public sector to take advantage of private-sector efficiencies.

3.4.4 Promoting inclusive financial services

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

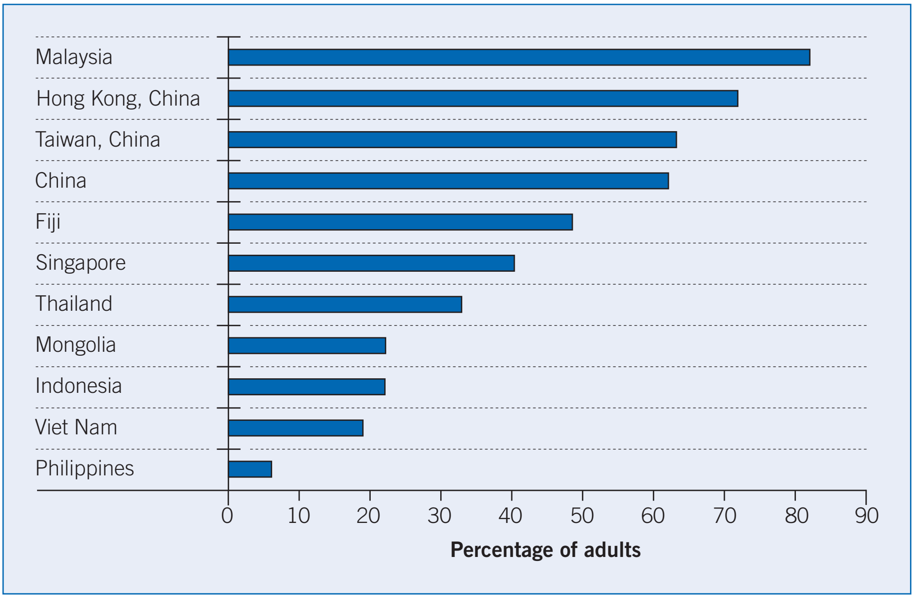
In the post-crisis era, there has been a growing interest in identifying lessons learned on how to enhance financial inclusion systematically to increase access to credit for the private sector, especially SMEs.[6] Enhancing financial inclusion is a key component of a pro-employment framework promoting balanced, sustainable and job-rich development (ILO, 2010g). 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 (Reuters, 2010).

Some lessons learned in the region point to the role of specialized 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

[5] For example, it is estimated that India requires around US$150 billion for the creation and maintenance of infrastructure (Sahoo, 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 currently allocated for infrastructure.

[6] Financial inclusion is also important 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 this chapter.

Figure 3.8 Credit information coverage in East Asia and the Pacific (percentage of adults)



Source: Mylenko (2011).

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 a 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 has increased from zero to 62 per cent in recent years. Indonesia, Mongolia and Thailand have also made progress (figure 3.8).

As many developing economies in the region reform their financial infrastructures, these examples highlight the importance of enabling public policy in the implementation of innovative scaleable solutions in order to enhance inclusive access to finance for SMEs. But other measures are also critical, which include 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, supporting workforce education, addressing informality and promoting social dialogue and democratic governance.

3.5 CONCLUSIONS

The impact of the global economic and financial crisis on the economies of Asia and the Pacific was considerable, translating into squeezes on enterprises, widespread job losses, expanding informal employment and falling household incomes. Strengthening the recovery and ensuring growth with equity and reductions in decent work deficits very 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 enhancing the quality of the workforce to increase long-term growth potential, including through adherence to core labour standards. The second is gradually building a social protection floor and other "automatic stabilizers" of social protection within a framework of fiscal sustainability, to strengthen the resilience of societies to future economic shocks and support consumption and domestic demand. The third is increasing 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 providing support to SMEs, with a special focus on improving the availability of financing.