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Productivity in Arab countries and Asia-Pacific: Historic trends and future challenges

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- Historical overview of labour productivity in Asia-Pacific and Arab regions compared to global economy
- Labor productivity in Asia and Arab regions: current challenges and opportunities for future
- Labour market challenges and opportunities for policymakers and businesses in terms of productivity and technology.





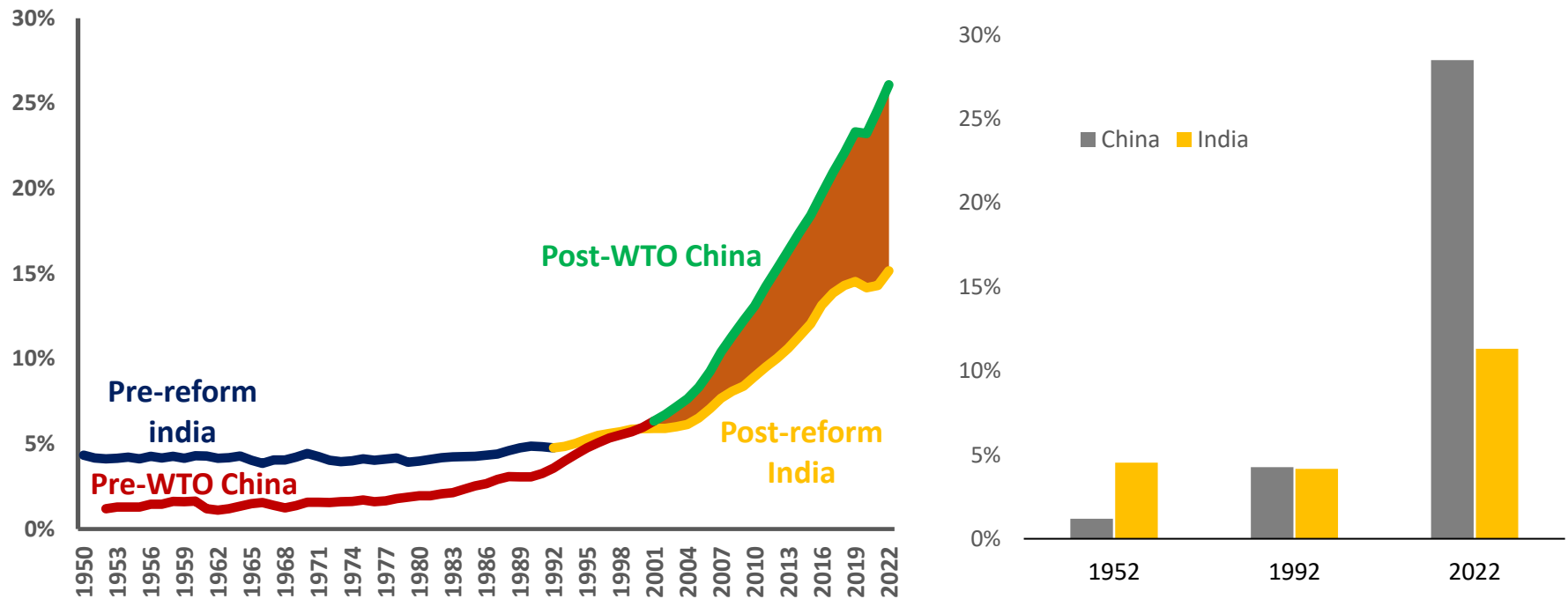
"Negative productivity growth helps explain why, in an oil state like Saudi Arabia, per capita income rises towards developed countries only when oil prices are rising, then retreats when they are falling"

Financial Times, November 21 2022.





Labour productivity (left) and per capita income (right), as percent of the United States



Source: The Conference Board Total Economy Database

Gains in productivity since the joining of WTO helped China achieve better living standards



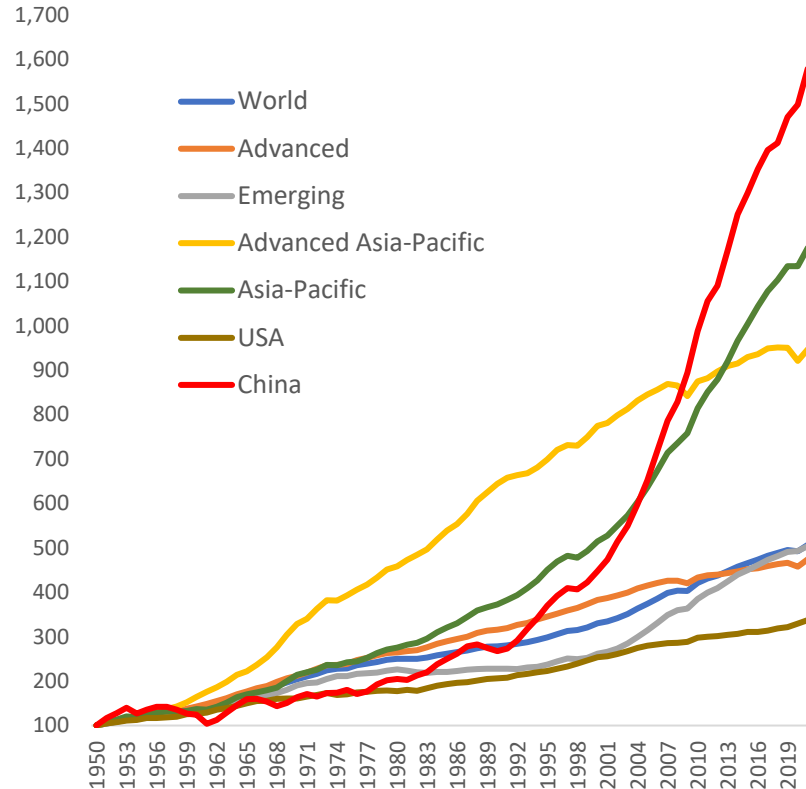
Evolution of productivity in Asia-Pacific and Arab regions:

A tale of
convergence and
divergence





Worker productivity growth(real US\$ PPP, 1950=100)



Worker productivity growth(%)

	1996-2007	2011-2020
World	2.4	1.6
Advanced	1.8	0.5
Emerging	3.2	2.5
Asia-Pacific	3.8	3.3
Arab	-0.1	-1.4
USA	2.1	1.0
China	6.3	4.2

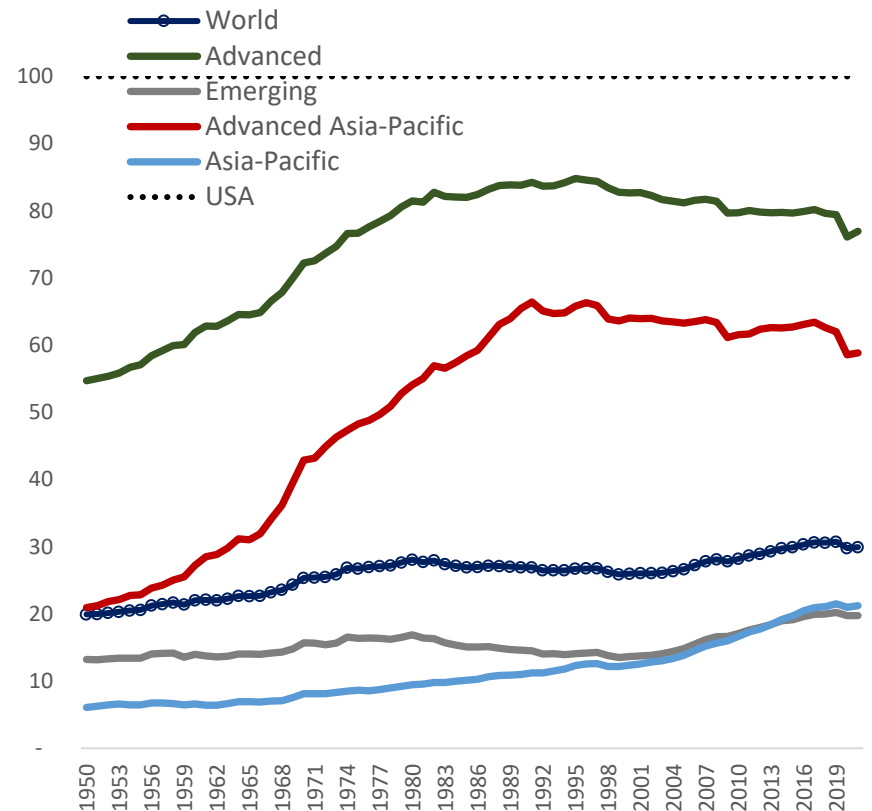
- Since 2000s China is driver of Asia's productivity growth
- Asia-Pacific has seen much faster productivity growth compared to other regions of the world.



12/5/2022

Yet, barring advanced economies in Asia, relative productivity levels are much low in Asia – quite closer to emerging market average

Worker productivity levels (real US\$ PPP), relative to the US



Source: The Conference Board Total Economy Database



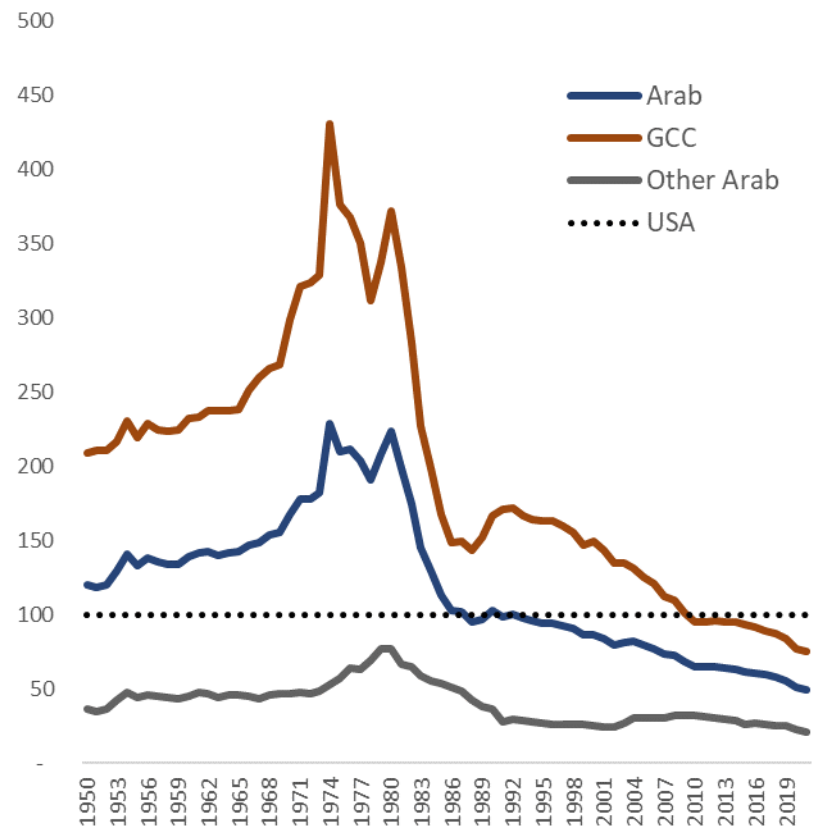
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- Early labor productivity levels in GCC were higher than the US
- Started falling early 1980s, and is now below the US
- Over-reliance on oil and lack of diversification affected productivity growth

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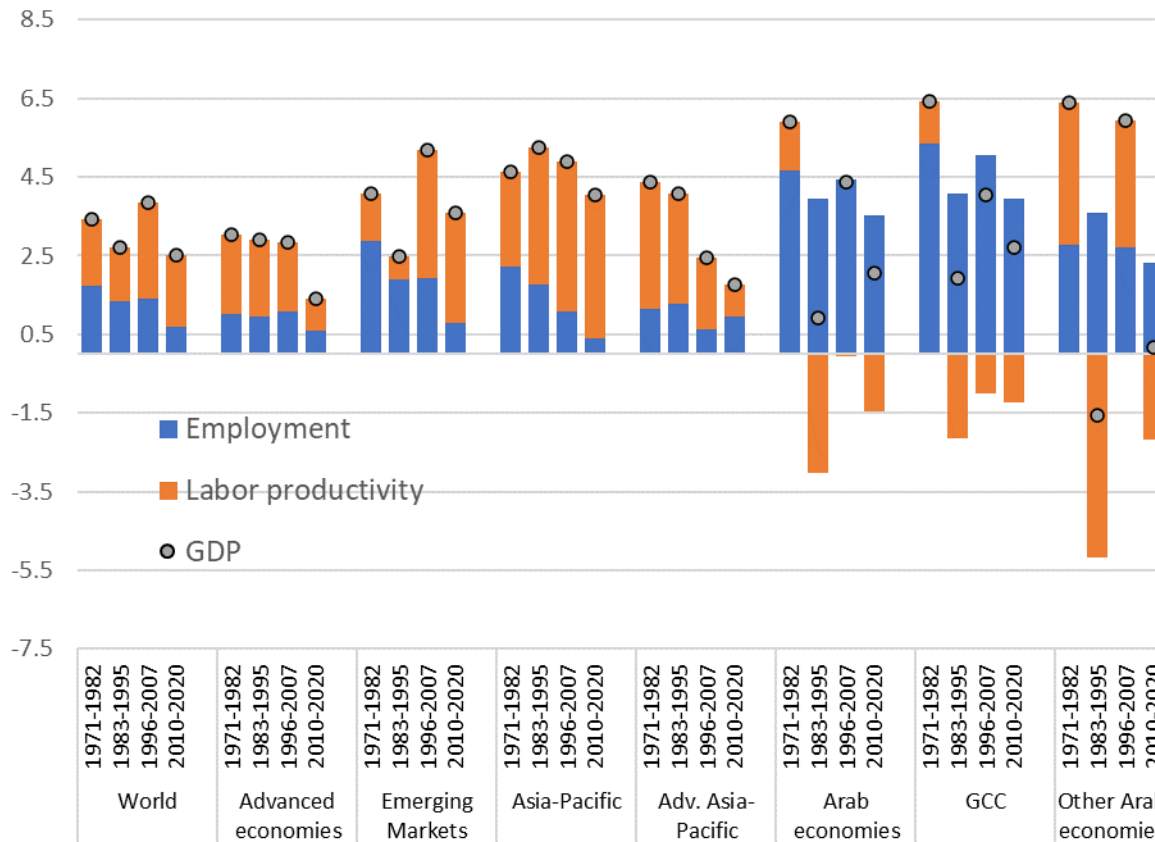
Worker productivity levels (real US\$ PPP), relative to the US



Source: The Conference Board Total Economy Database



Contribution of productivity and employment to GDP growth

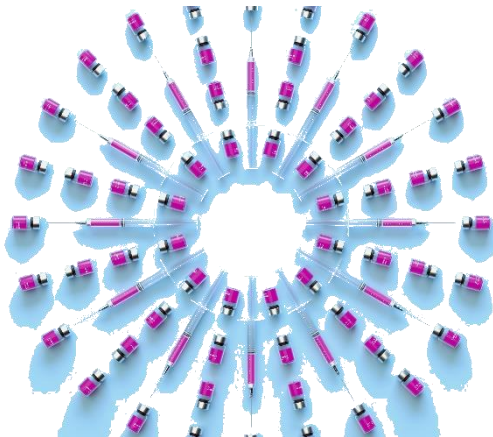


Source: The Conference Board Total Economy Database

- Productivity growth was an important driver of growth globally and in Asia but not in Arab countries
- Excessive reliance on workers in the GCC economies led to compromising productivity.



- Financial crisis, natural disasters, pandemic
 - Pandemic effects: negative and positive (adoption of new technologies)
- Slow pace of technology translating into growth
 - The new technologies are still in installation phase & the scale of creative destruction limits our ability to foresee future
- Changes in demographic composition of population
- Stalling in global production fragmentation
- Stalling in the movement of workers to more productive activities
- Skill mismatch, delay and policies





Installation phase

- Creative destruction
- Exploration of new markets
- Battle of new paradigm with the old
- Supply “push”
- Growth confided to small sectors

disruption

Frenzy period – sometimes followed by crisis

Deployment phase

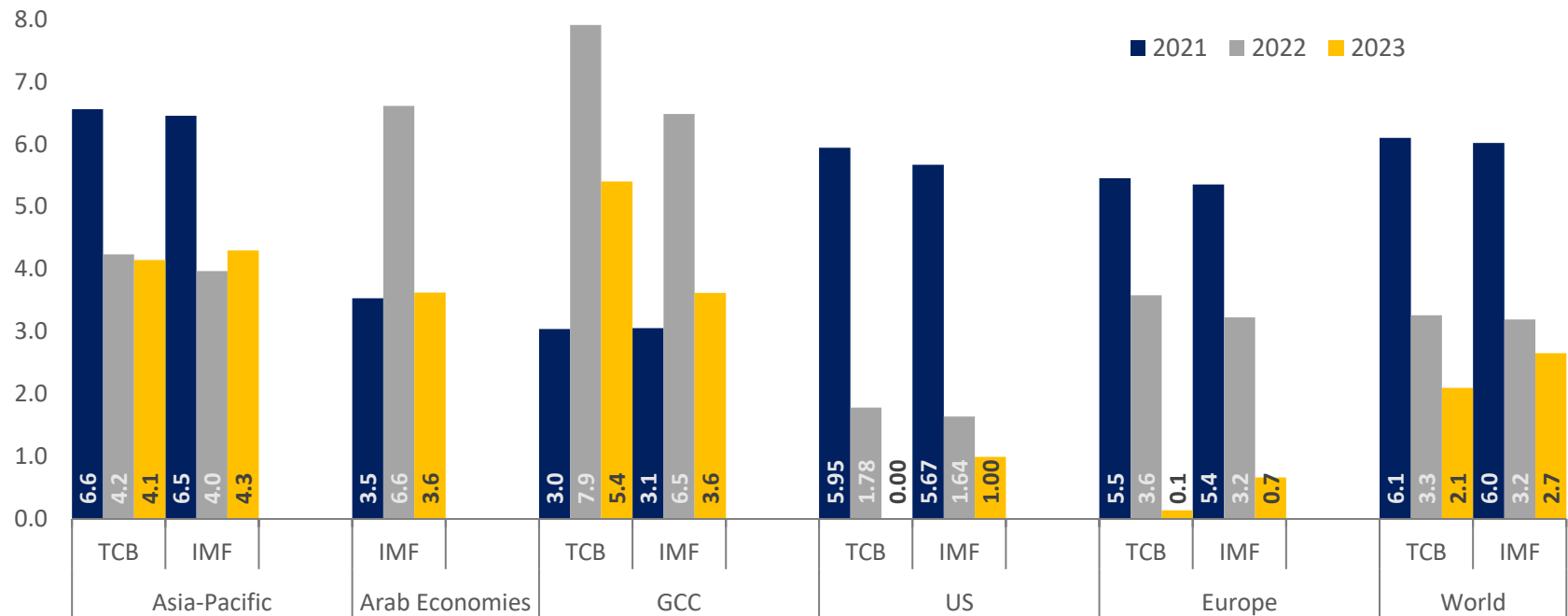
- Creative construction
- Consolidation & expansion of new markets
- Widespread acceptance
- Demand “pull”
- Wide benefits for the economy



Labor productivity in Asia and Arab regions: current challenges and opportunities for future



GDP growth projections



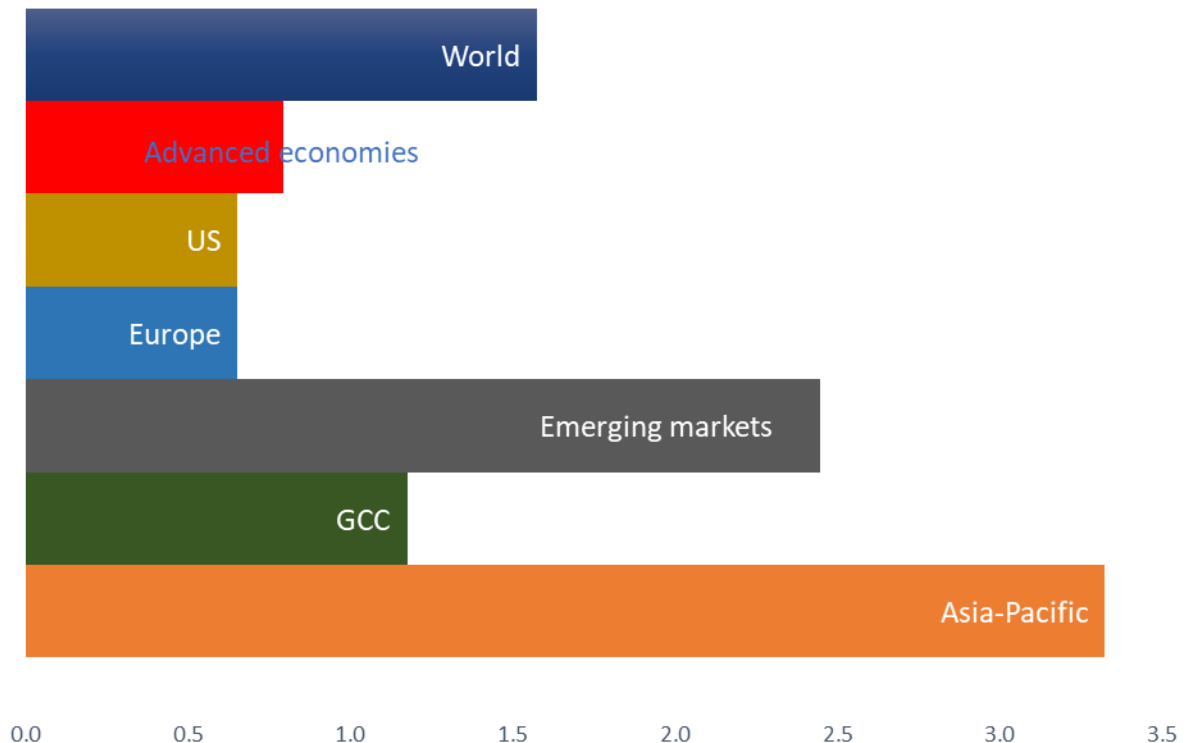
Notes: IMF numbers are calculated using GDP weights with individual country growth rates

Sources: The Conference Board Global Economic Outlook, IMF



Labour Productivity growth projections, 2020-2025

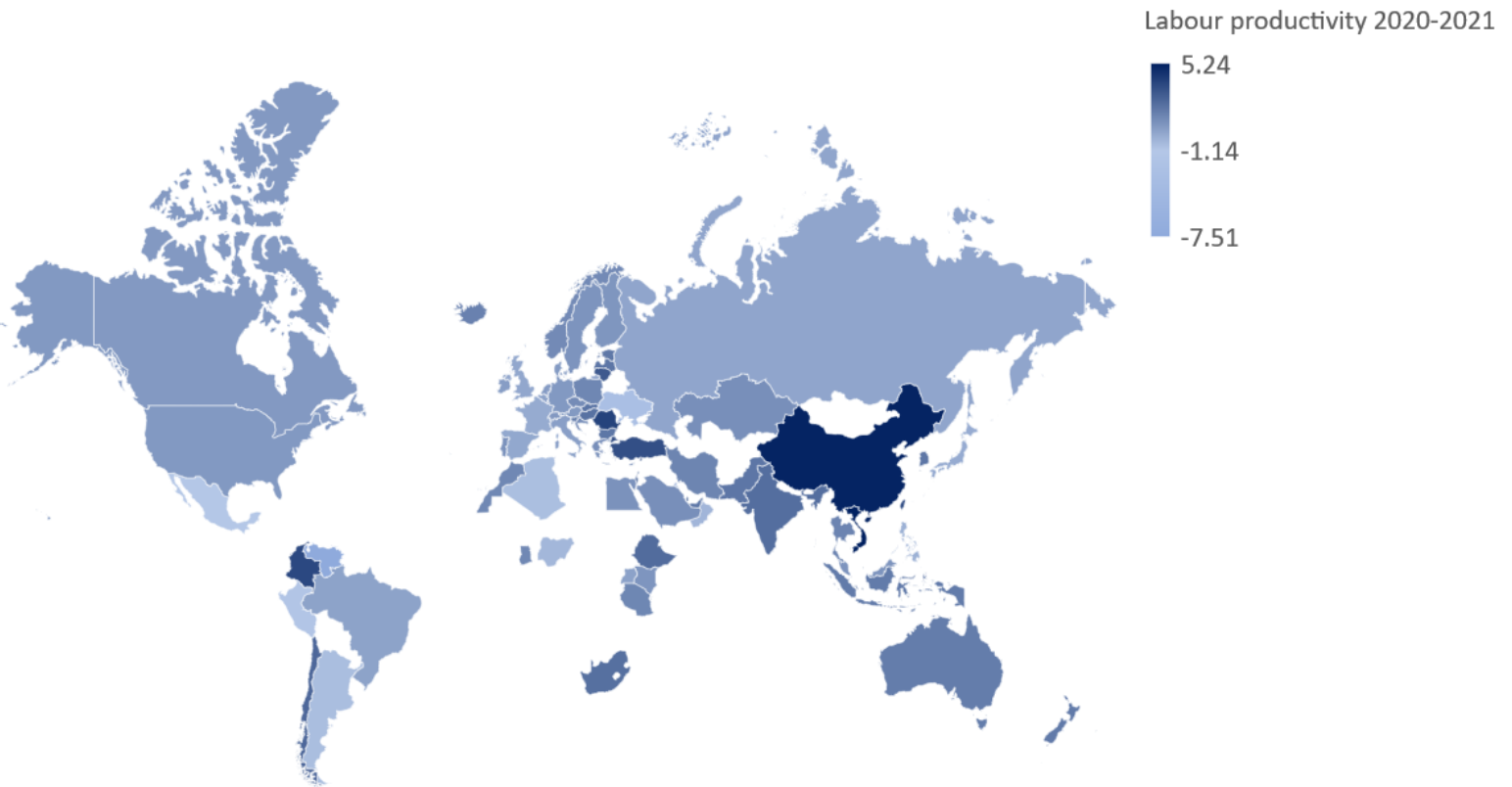
Business as usual, global productivity growth is likely to stay at below 2 percent in the next five years



Source: The Conference Board Global Economic Outlook, November 2022



Labour Productivity growth projections by country, 2020-2025



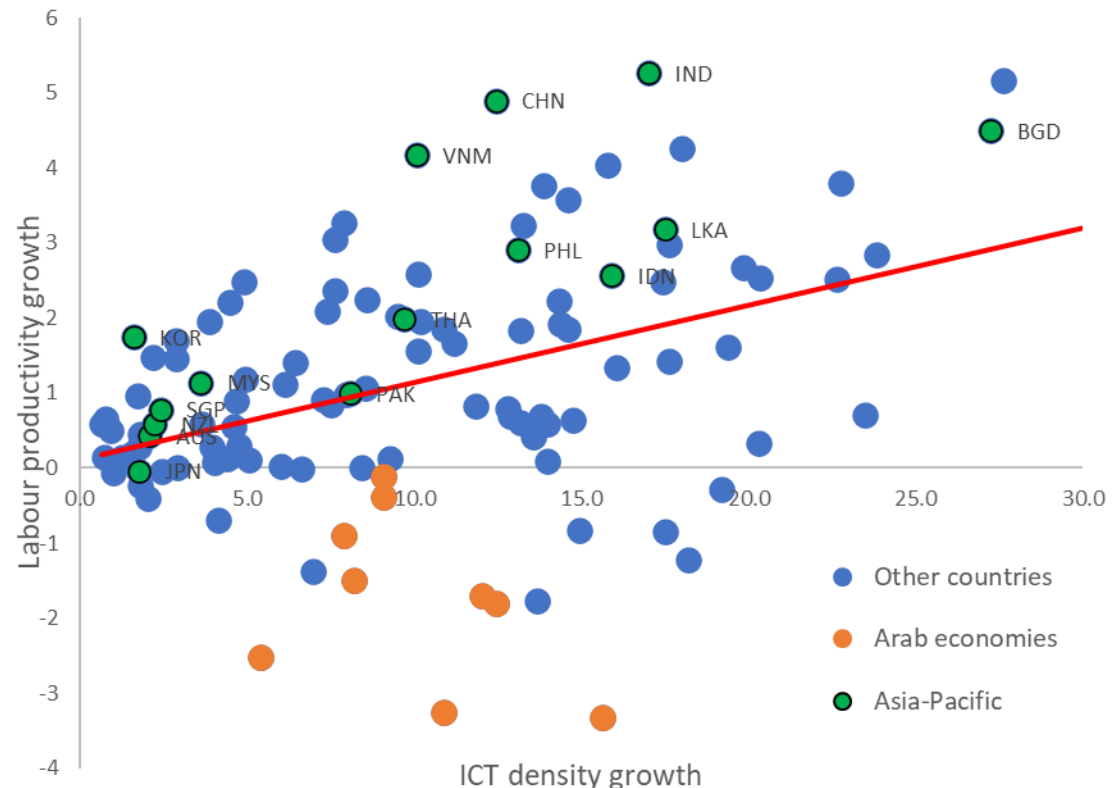
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Source: The Conference Board Global Economic Outlook, November 2022



Labour Productivity growth & and ICT penetration growth, 2015-2020

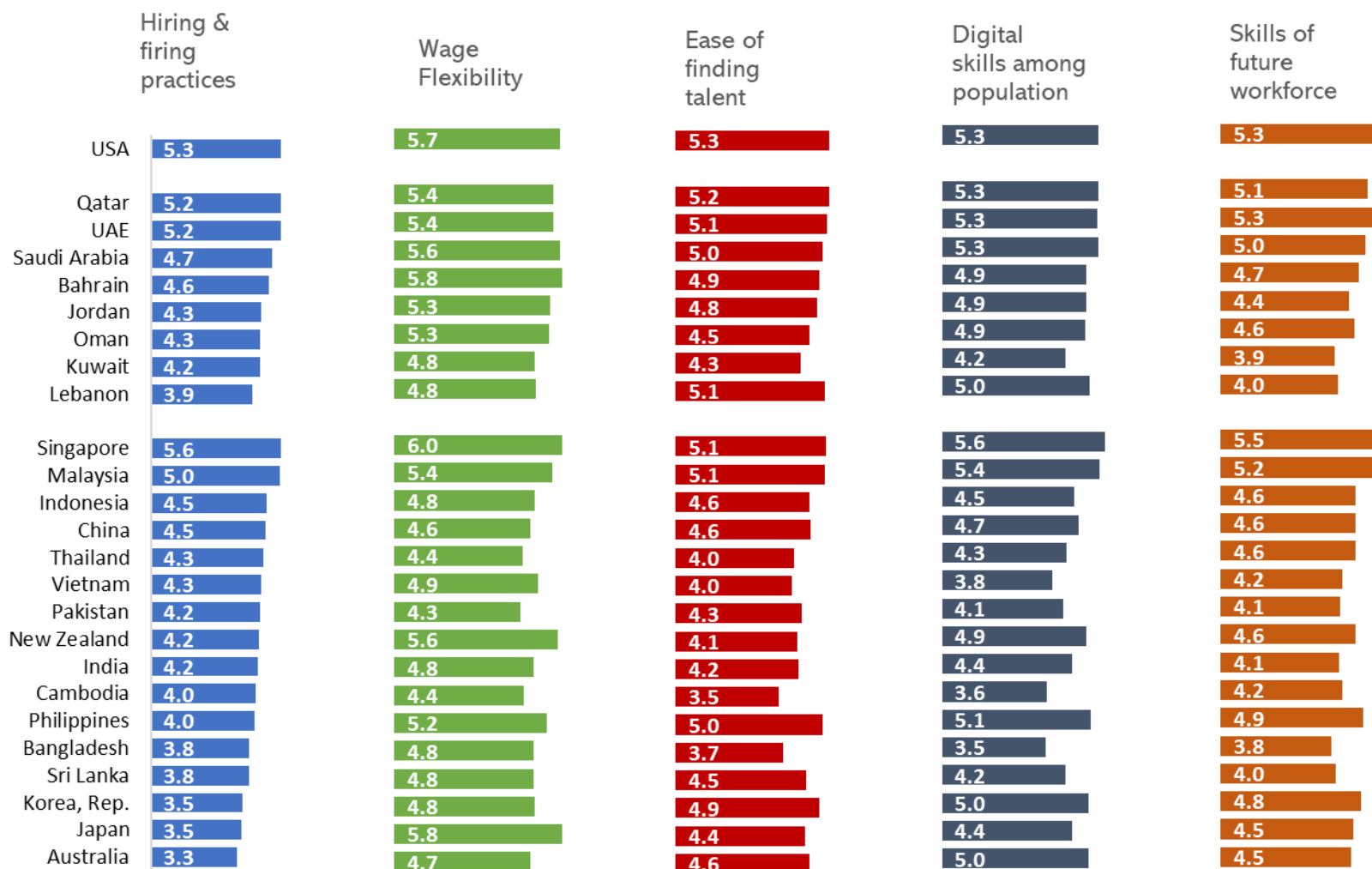
- In general, countries with faster ICT penetration rates also achieved faster productivity growth in Asia-Pacific
- But despite high ICT penetration, Arab economies failed to use those efficiently to improve productivity.





Labour market efficiency and skill preparedness are major challenges for Asia

12/5/2022



Source: Global Competitiveness Index Historical Dataset, 2019, World Economic Forum

Note: all on scale 1-7



- Declining working population, but increase in urban workers
Yet skill scarcity as migrants from rural area lack technical skills
- Increasing wage pressure



- Large and increasing young population, but low rates of formally skilled, thus leaving large skill gaps
- Potential for increased female participation



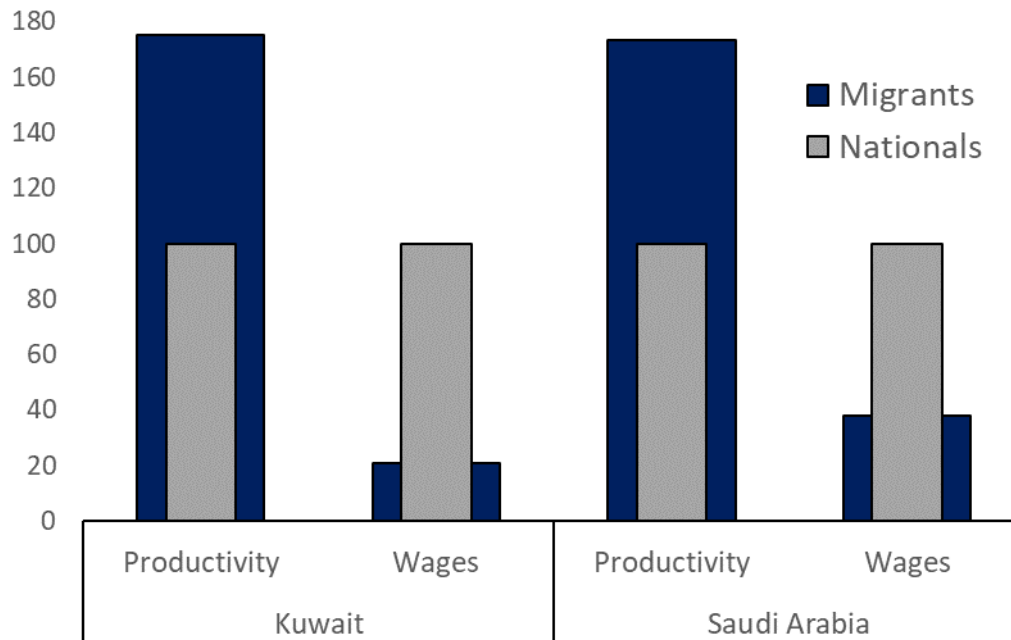
- Large and increasing working population, but poorly educated labor pool
- The need for skilled workers is forecasted to increase from 55 to 113 million in next 15 years.



- Increasing working population
- Relatively better dealing of skill and talent challenges, yet significant challenges exist
- High outflow of skilled workers adds to skill shortage



Estimated productivity & wage differences between Natives and Migrants, Kuwait and Saudi Arabia



Source: Erumban and Al-Majran, 2021

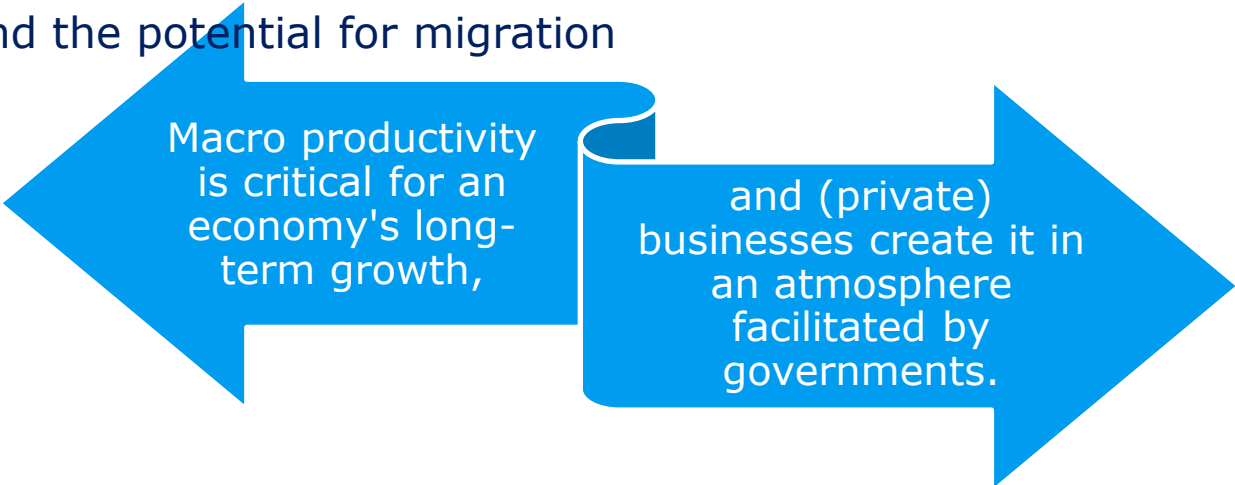
- Not easy for the GCC to substitute migrant workers with natives, in the private sector
- They need to create institutional structure that make the native workers competitive, skilled, and willing to work in the private sector



- **For business:** Technology becomes more skill-intensive and the hunt for talent can be fierce. Covid increased the pace of talent needs as it increased the intensity of technology use. Flexibility in skills might become critical.
- Labour shortages in the west will increase the potential for migration and brain drain, deepening the chase for talent.
- Upskilling & re-skilling workers, training & retaining talent, rewarding innovation, worker engagement, and well-being
- Asia's demographic dividend can be an answer to labour shortages, but skill preparedness is a huge issue across countries, regardless of income level.
- Invest not only in machinery but in innovation, intangibles, management competencies & organization; digital transformation & technologies.
- **For governments:** Structural reforms are still important for many countries
- Infrastructure, institutions, education and human capital, and regulations
- Creating business-friendly climates that ease access to finance and cost savings, especially for SME's



- In general, firms rapidly catch-up with technology in most economies, but workers are not.
- With all other dynamics in place, the consequent hunt for talent can put upward pressure on wages, particularly for the skilled workers
- So, focusing policies on worker skills is critical for future productivity growth
- What type of skill?
 - Changing phases of globalization
 - Changing technology: Rising AI and robotics
 - Changing composition of global population
 - Rising hunt for talent and the potential for migration
 - Protecting climate
 - Inclusiveness



Macro productivity
is critical for an
economy's long-
term growth,

and (private)
businesses create it in
an atmosphere
facilitated by
governments.



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Thanks for your attention

"Productivity isn't everything, but, in the long run, it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker."

Paul Krugman, Nobel laureate



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