

Trade, Employment and Inclusive Growth in Asia

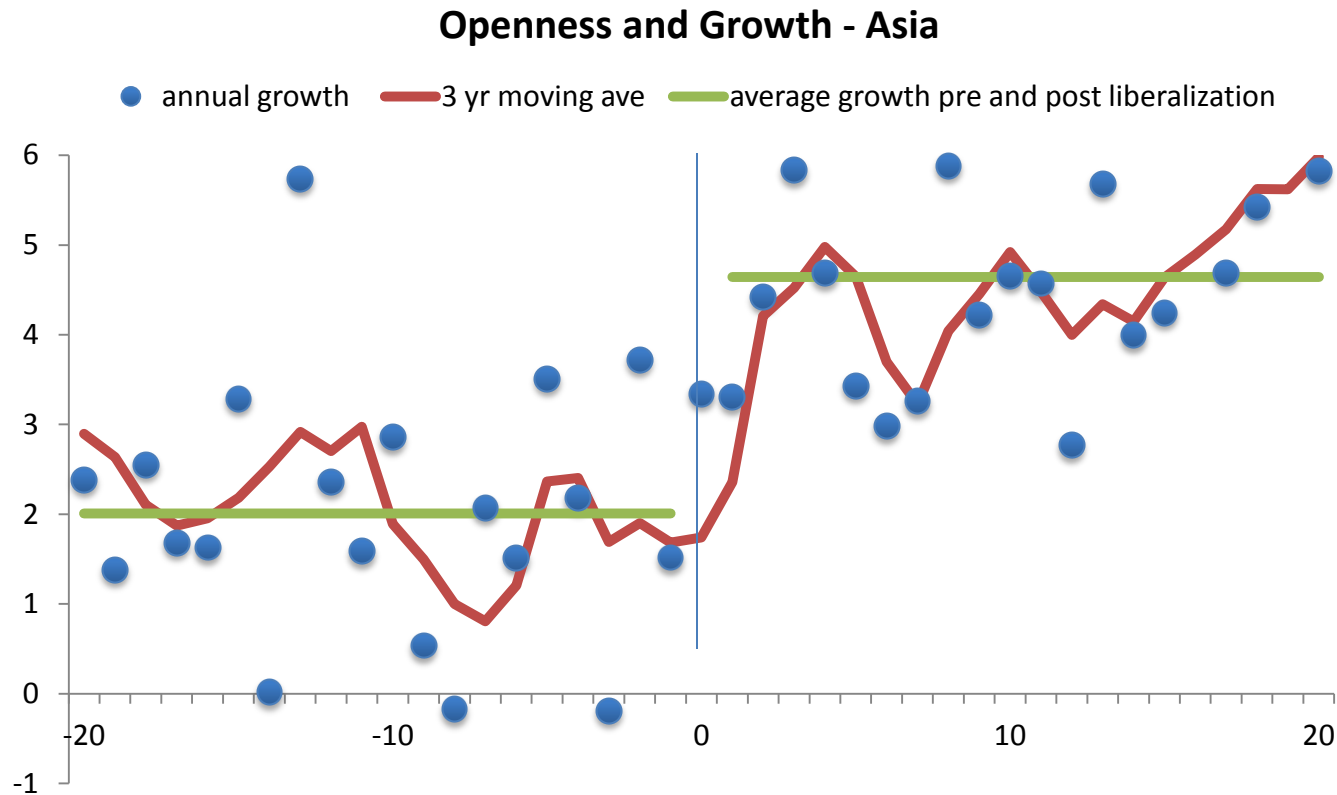
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Relationship between trade and growth is well-established...



Notes: The data refer to 21 Asian economies: Armenia; Azerbaijan; Bangladesh; PRC; Georgia; Hong Kong, China; India; Indonesia; Japan; Korea; Malaysia; Nepal; Papua New Guinea; Philippines; Singapore; Sri Lanka; Taipei,China; Tajikistan; Thailand; Turkmenistan; and Uzbekistan.

Source: Authors' calculation based on the methodology of Wacziarg and Welch (2008) and data from Penn World Tables 7.0.

But a more complex relationship is observed between growth and its effects in the labor market

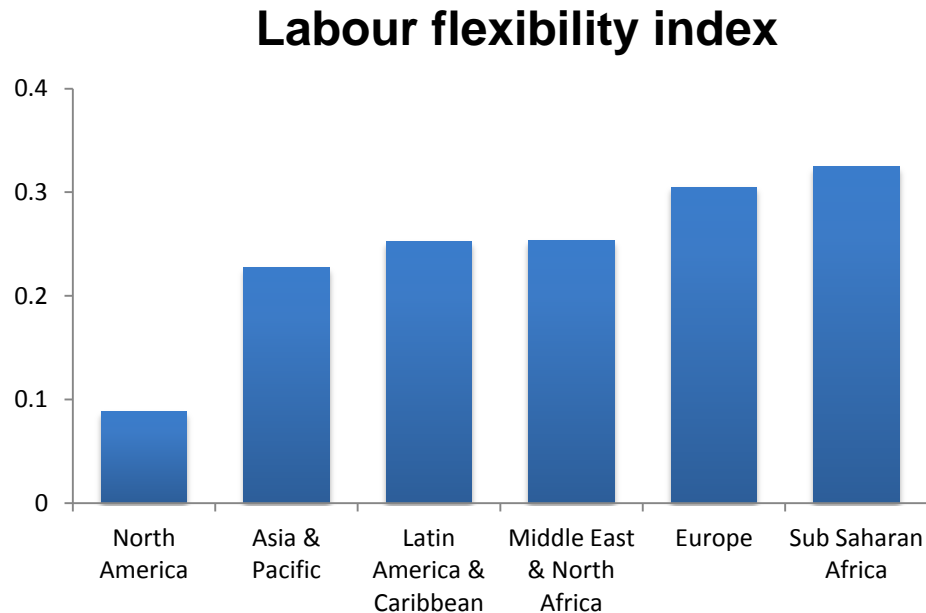
- Employment and unemployment
 - results are mostly context specific
- Wages and returns to labor
 - Stolper-Samuelson predicts increasing returns to unskilled labor, and the reverse for skilled
 - But empirical results vary (technology bias)
- Working conditions
 - Flanagan and Khor (2012): more open economies tend to have better labor conditions

Labor market institutions as a key determinant on how trade affects labor markets

Mainly through affecting the flexibility of Labor Markets

- Factor mobility or ability to adjust
- Speed of adjustment (adjustment costs)
- Availability of services that enhance adjustment (training, job search, access to credit)

Generally, Asia as a region has a relatively flexible labor market...but still more rigid than North America



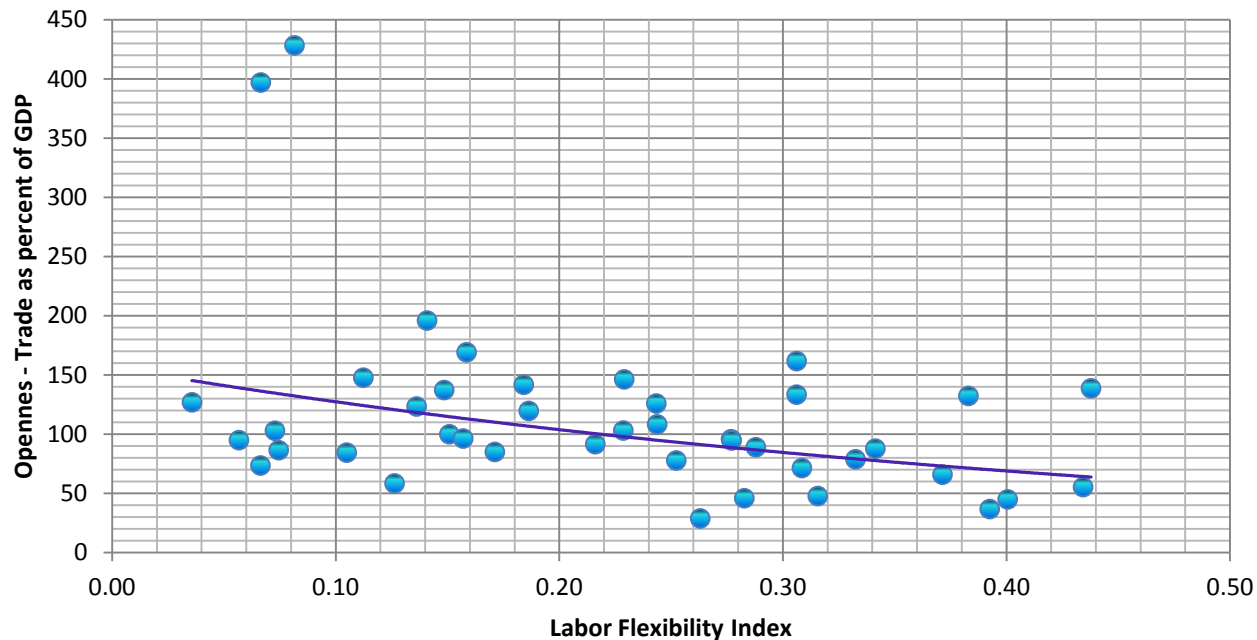
Notes:

- (1) An attempt to include freedom of association and collective bargaining indicators based on the ratification of ILO Conventions 87 and 98 resulted in the same patterns.
- (2) The five broad categories received equal weights.
- (3) The index takes a value of 0 to 1, with lower values denoting more flexible labour markets.
- (4) Regional averages are un-weighted.

Source: Authors' calculations based on the Labor Annex of the *Doing Business 2012*, World Bank.

In Asia, more open economies are correlated with more flexible labor markets

Labour flexibility and openness in Asia and the Pacific

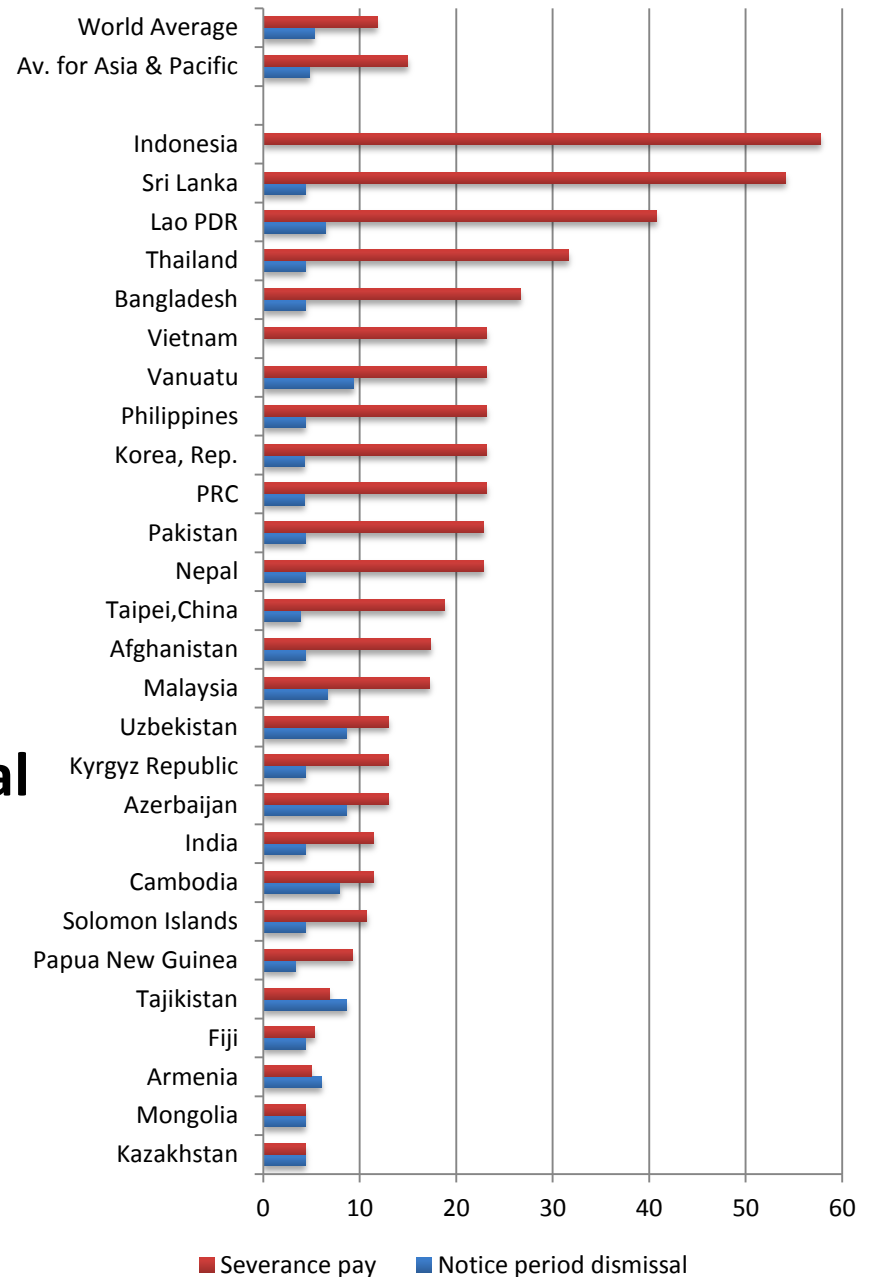


Note: Openness is measured as the average share of trade to GDP for 2005 to 2009.

Source: Authors' calculations based on the Penn World Tables 7.0, and *Doing Business 2012*, World Bank.

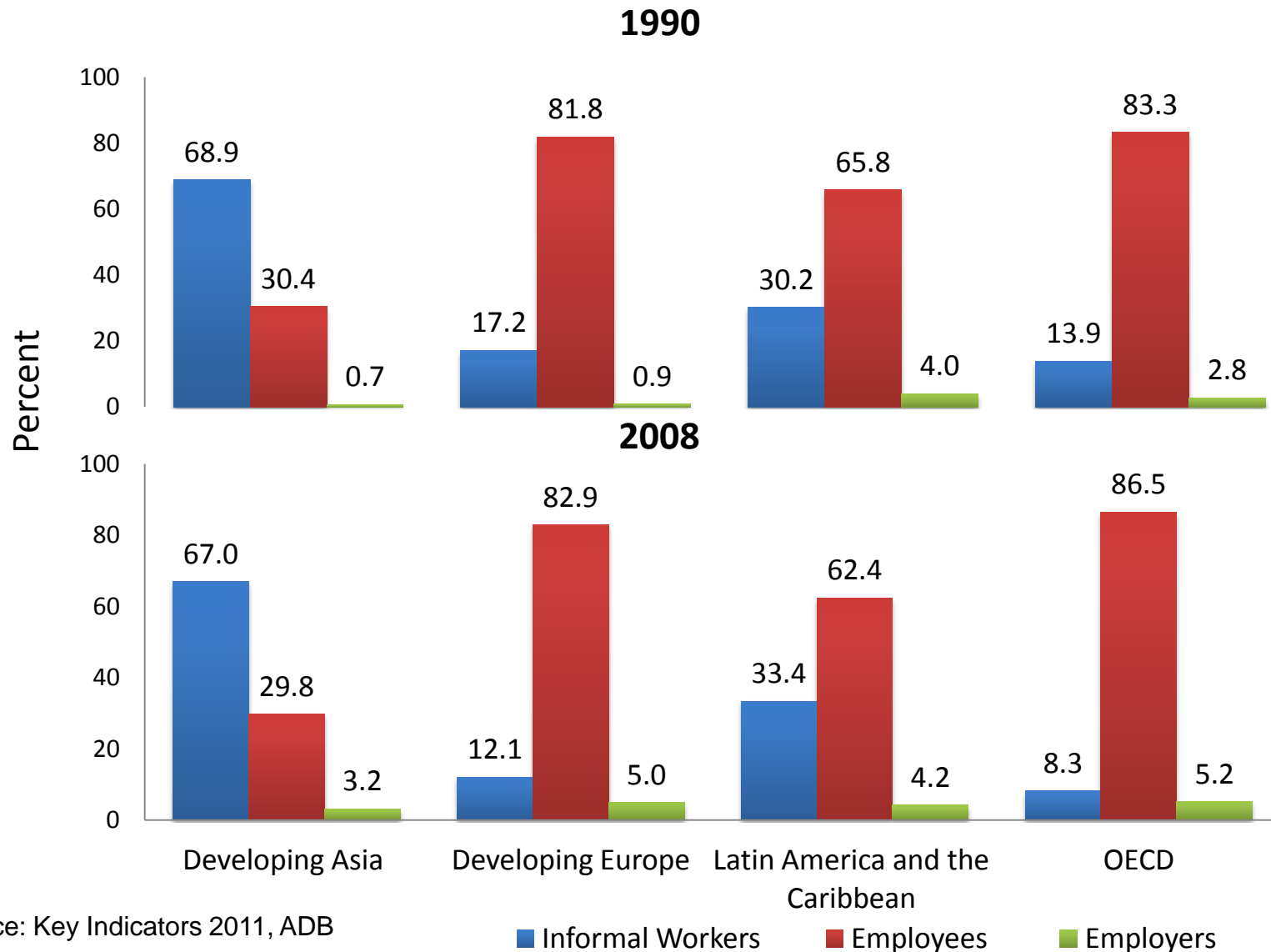
But wide variations at the country level are observed

Severance pay and notification requirements for worker dismissal



Note: Average figures are not weighted
Source: World Bank, *Doing Business 2011*.

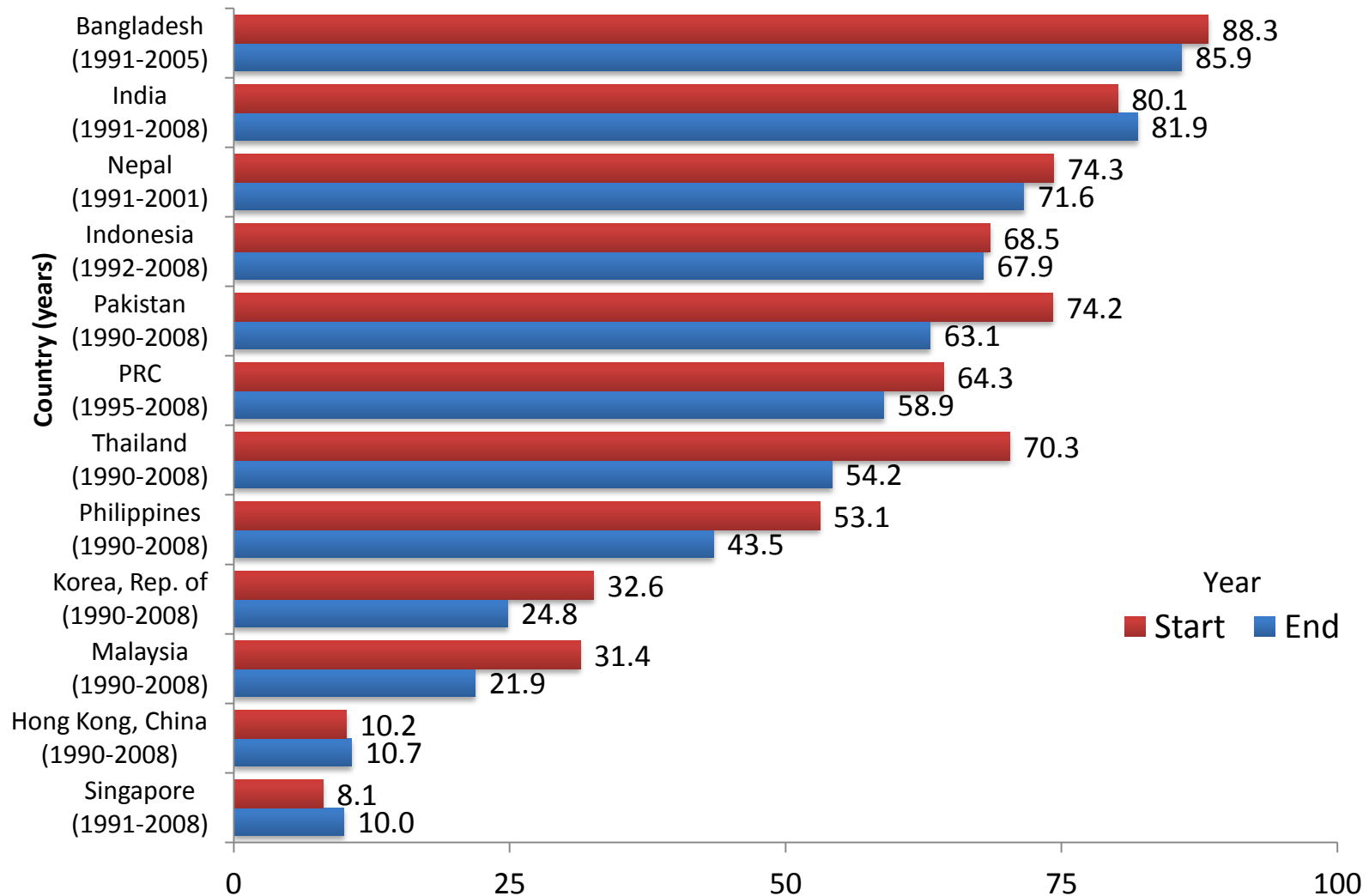
Another feature of the Asian labor market is the high rate of informality



Source: Key Indicators 2011, ADB

...it also tends to be persistent for many countries

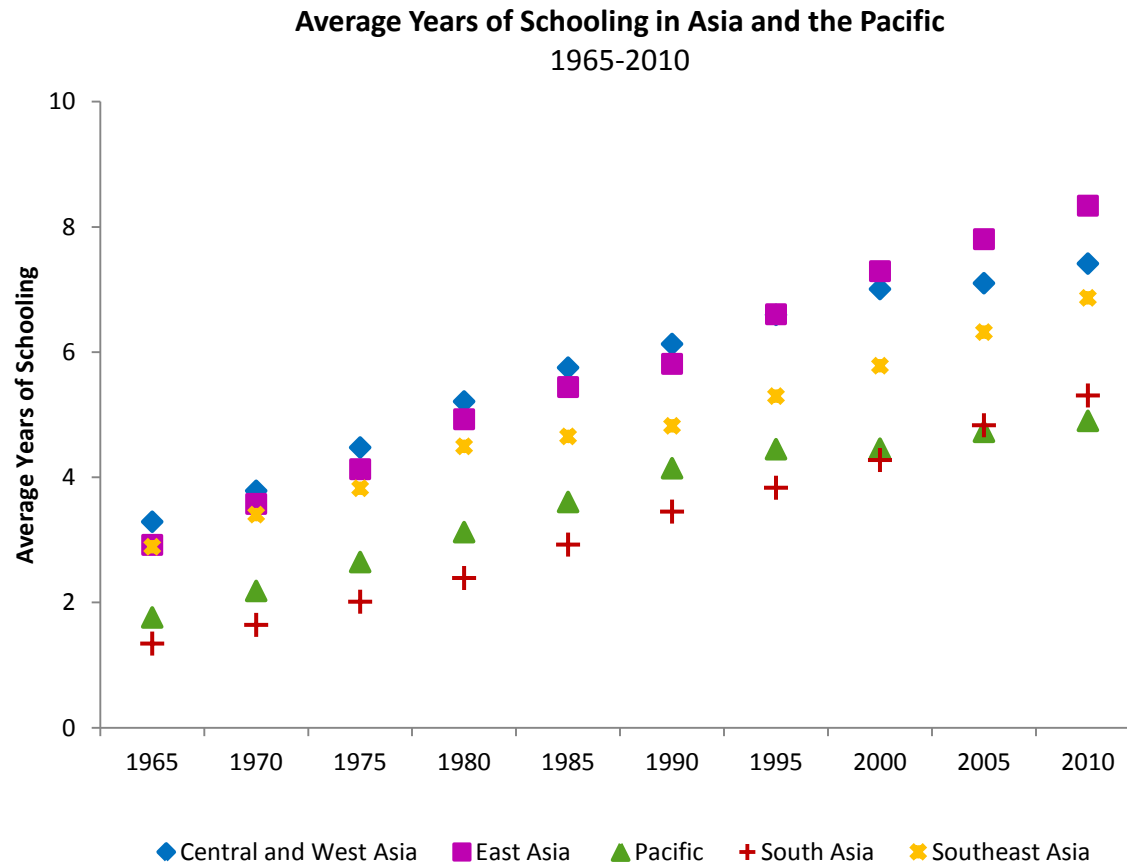
Percentage of Informal Workers to Total Employment



Labor markets in Asia also operate in the context of some important changes

1. More educated work force
2. Shrinking agriculture sector
3. Changing demography

1. Better educated workforce

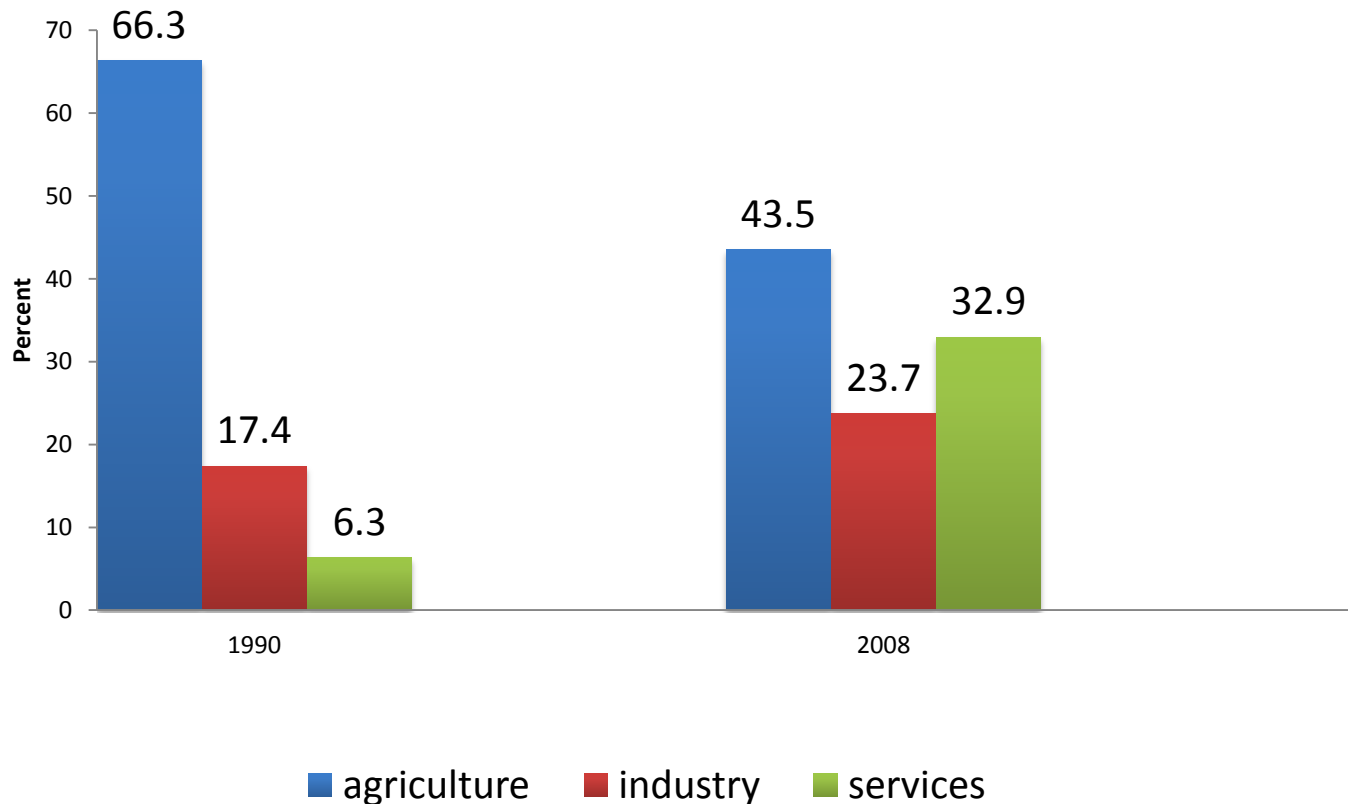


Note: Averages were weighted using size of labour force.

Source: Authors' calculations based on Barro and Lee (2010), World Development Indicators and Directorate General of Budget, Accounting and Statistics for population aged 15 and over.

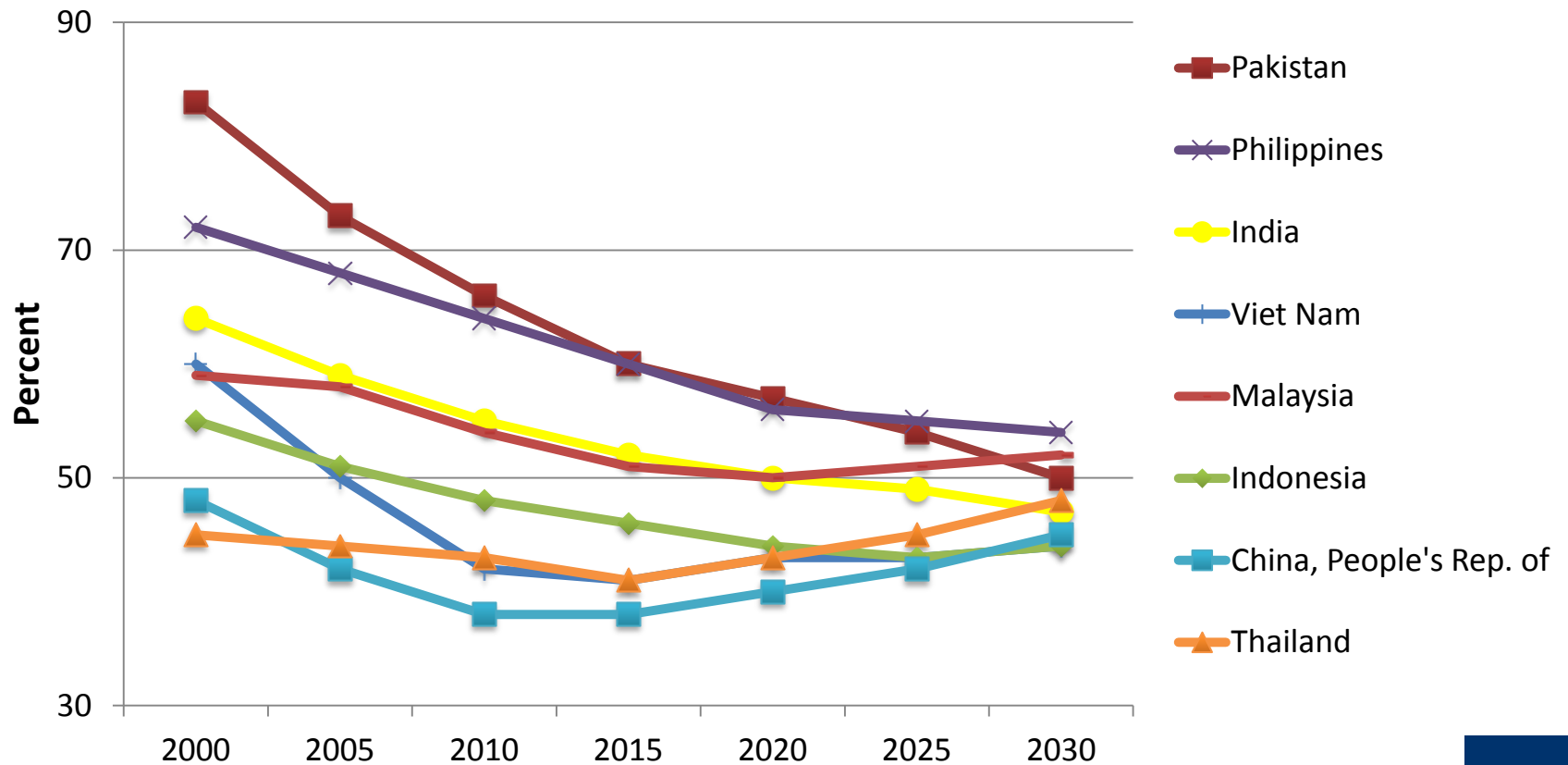
2. Changing industry structure

Employment Share of Agriculture, Industry and Services
1990 and 2008



3. Demographic transition

Dependency Ratios for Selected DMCs, 2000 to 2030



Policy considerations

1. Flexibility – making labor supply and demand more responsive to changes
2. Safety nets -such as unemployment insurance and social security
 - *Only fully available in a few economies such as Korea and Taipei,China*
 - *Limited in depth for most developing Asian countries with some safety net coverage*
 - *Mostly limited to the formal sector in the lower income developing countries of Asia*
 - *What is a good design for developing countries (in terms of depth, burden sharing, incentive scheme)?*

Policy considerations

3. Reducing information costs – information and job search assistance
4. Human resources – Education (skills towards continuous learning?), training
5. Service sector and trade in tasks – potential for job creation
6. Infrastructure – lowering transactions costs, expansion of extensive and intensive margins
7. Sequencing issues – protect sensitive industry first?

Summary

- Well-established relationship between growth and trade
- But mixed results when it comes to trade and employment
- Reaping the benefits of trade while minimizing burden, especially on the poor entails improvement in market functions, provision of safety nets and other support services

Thank you
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