

# Asian growth rates rise but employment problems deepen

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Despite relatively high levels of growth, Asia is heading for an employment crisis with far-reaching social and political consequences. That is the conclusion which emerges from a new book on the region's labour markets published by the Asian Development Bank (ADB) last month.

"The outlines of an Asian employment crisis are already taking shape," the ADB's chief economist Ifzal Ali said at the book launch. "Strong economic growth alone will not solve the problem. Even in countries that have achieved relatively high growth rates of output, employment growth has been disappointing."

The ADB study notes that, although the region has made some advances in the reduction of poverty over the past two decades, some 1.9 billion people still live on less than \$2 a day, either unable to find work or earning too little from the employment they do obtain.

The bank pointed to a "huge global oversupply of labour" resulting from the integration of China, India and Russia into the world economy.

"Asia's success will sooner or later be eclipsed by the pressures of a huge 'reserve army' of unemployed and underemployed workers who are constantly driven to seek out employment at sub-standard wages in order to survive," Ali said.

"The potential of developing Asian economies is widely recognised. But unless Asian governments make job creation a central national objective backed by time-bound, feasible, credible and measurable policies, the region may well remain plagued by huge unemployment, underemployment and poverty—and all the challenges they create."

One of the most significant findings of the ADB study is that the percentage increase in employment during the 1990s for every percentage point growth in the gross domestic product (GDP) was lower than in

the previous decade. The largest fall was in China—the world's fastest growing economy—where growth of 3 percent in the 1980s produced a 1 percent increase in employment, while a growth rate of almost 8 percent was needed to achieve the same result in the 1990s.

The problem appears to be worsening. In 2006, it is estimated that about 25 million new urban jobs need to be created in China to accommodate new entrants to the labour market, rural migrants and workers laid off from state enterprises. But according to the latest estimates, only 11 million new jobs will be generated.

The ADB has found what it calls "disappointing" results so far as income inequality is concerned. In China, the Gini index, which provides a statistical measure of inequality, rose by 13 percentage points between 1981 and 2000. Inequality has also increased in India, both between urban and rural areas and within urban areas.

The ADB study also found that employment in the so-called "informal" sector, where productivity is very low and little capital is employed, is "either on the rise or remains persistent. In India, where per capita GDP growth was close to 5 percent between 1993 and 1999, the share of the informal sector in non-agricultural employment increased from 80.5 percent to 83.2 percent.

Informal employment was also on the increase in China and Vietnam as a result of layoffs in state-owned enterprises and an increase in rural-urban migration. The study also found a "dramatic" rise in informal employment in Indonesia following the Asian financial crisis of 1997-98, with increases also recorded in the Philippines and Thailand.

Moreover, the nature of employment is also changing. "While previously formal sector employment was synonymous with 'regular' contracts, which

among other things offered considerable job security, this is increasingly not the case. A survey of formal sector establishments in the Philippines shows that the proportion of nonregular workers in total employment increased from about 20 percent in 1991 to about 28 percent in 1997.”

In examining the causes of these phenomena, the study noted that the increase in the effective size of the global labour force had not been accompanied by a surge in capital for investment.

At the same time, while the relative labour abundance of developing countries would suggest the use of more labour-intensive methods in the formal industry and service sectors, this was not the case and the “formal sectors of developing countries are not very different from those of industrial countries in terms of capital intensity.”

A study conducted at an Indian motorbike and scooter factory, for example, found that while 810 workers produced 244,000 units two years ago, after the introduction of greater automation and changes on the shop floor, the factory is turning out nearly three times as many motorbikes with just 90 more workers. “As executives at leading manufacturing plants explain, the introduction of labour-saving techniques is deemed essential for achieving ‘international competitiveness’.”

The ADB study called for “significant increases” in the demand for labour in the formal sector. Not only did aggregate production have to increase but this expansion had to be labour intensive. But policy prescriptions to make this happen are another question. After calling for policies to “promote diversification of production activities into new areas, facilitate restructuring of existing activities, and foster coordination between public and private entities”, it acknowledged that, while such measures might alleviate some of the problems associated with the adoption of new technologies and the intense competition between firms, they would not eliminate them. “In other words, it is quite likely that unemployment driven by the adoption of new technologies and heightened competition among firms will continue to be serious problems.”

Just how serious was underlined in a recent speech by the head of one of India’s leading industrial and engineering firms. Delivering the Hatfield lecture at

Cornell University last month, Ratan Tata, the head of the Tata Group, pointed out that of India’s billion plus population 20 percent are under the age of 20. By the year 2040 the country would have the world’s largest working-age population, surpassing even that of China.

“These young Indians want a place in the sun, an education, a job, the kind of life they know exists from television,” he said. “Will there be jobs for them?” If not, he warned, the country may see “the makings of a revolution.”



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