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WIDER Working Paper 2018/107

Employment and development in Asia

Rolph van der Hoeven*

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Abstract: How have economic development, employment, and labour markets in Asian countries interacted since the publication of Myrdal's *Asian Drama*? Myrdal rejected the western approach to and definition of employment and emphasized the role of 'informal' employment, but he underestimated the effects of the Lewisian development process. In fast-growing countries with better labour market development, initial conditions have played a role, though less than Myrdal predicted. Myrdal's concept of cumulative causation better explains how fast-growing countries with better labour markets have developed. These countries have pursued a developmental state and applied interventionist policies in agriculture, industry, and macroeconomics, as well as in social policies and in strengthening the position of women in the labour market. Successful countries are also characterized by initial low-income inequality and targeted redistribution of factors of production. For some countries, though, growing inequality together with other development challenges can, if not attended to, become a problem in the future.

Keywords: labour force and employment, economic growth and aggregate productivity, human capital, income distribution, industrial and macroeconomic policy

JEL classification: E6, J21, J24, O15, O25, O4

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1 Introduction and overview

This paper provides a retrospect of and prospects for development, labour market, and employment issues in Asia, triggered by Myrdal's *Asian Drama*, published fifty years ago. Following this introduction and overview, Section 2 firstly conceptualizes labour markets, employment, underemployment, and unemployment at the time when *Asian Drama* was written. It then traces the evolution of thinking about labour markets and employment in a more or less chronological order up until the adoption of the 2015 United Nations Sustainable Development Goals, before setting out the analytical approach on development and labour markets followed in this paper.

Section 3 shows how various sub-regional groups and countries in Asia fared from 1965 to 2015 with respect to economic and labour market issues. The first sub-section compares Asian sub-regions to other developing regions and the second sub-section analyses developments in Asian countries themselves. Asian countries are classified into categories of fast-growing countries with good labour market outcomes, fast-growing countries with weak labour market outcomes, and those that have not grown fast and have weak labour market outcomes.

Section 4 analyses how and why in certain Asian countries policies and institutions have reinforced each other, leading to faster growth and better labour market outcomes—something that Myrdal labelled as ‘cumulative causation’. Section 5 discusses six, not entirely independent, factors determining future developments of economies and labour markets in Asia: demographic trends, migration, technology, the future of work, social developments, and income inequalities. Section 6 concludes.

2 The analytical framework¹

2.1 Concepts of employment and labour markets at the time of *Asian Drama*

Asian Drama (Myrdal 1968) had, at the time of publication, a great influence on thinking on employment and related issues. *Asian Drama* was the only publication with two chapters in the seminal bundle *Third World Employment* (Jolly et al. 1973). Myrdal's understanding of employment issues should, though, be set in the context of his time (decolonization and independence). He is vigorous in rejecting the colonialist or mercantilist approach to economic development and its interpretation of the labour market. However, he is also critical of the ‘modern approach’, which purports fast growth in the modern industrial sector profiting from a large reserve pool of labour. The modern approach, as depicted by Myrdal, resembles Lewis's theory of unlimited supply of labour, although Myrdal barely makes reference to the writings of Lewis (1954) himself. Myrdal is not fully convinced of the unlimited supply of labour argument. In various passages, especially in Part 5 (Problems of Labor Utilization), he contests the notion of a labour reserve, as substantial parts of the labour force (with different intensity in Asian countries and most pronounced in India) are unable to work in industry because of administrative, caste, and religious practices and a lack of basic skills (because of insufficient education) and stamina (because of ill health and sanitary conditions).

¹ Certain paragraphs in this section draw on van der Hoeven (2017).

Myrdal questions a mechanistic interpretation of the notion of underemployment and emphasizes issues like duration and productivity of work. He favours the concept of a dual labour market driven by different and separate activities in the so-called formal and informal economies. Under certain conditions, the modern industrial sector can even face a situation of labour shortage, similar to that in developed countries. Myrdal also rejects a strict economic interpretation of the development challenge and prefers an integrated approach combining economic with sociological and political analysis. He emphasizes initial conditions and cumulative causation as explanatory factors for different patterns of development and employment creation.

Myrdal, advancing the work of Mahalanobis (1958), criticizes (in Appendix 16) those labour market analyses that studied in-depth unemployment but neglected to take a broader view of employment and development. His analysis gave support to the concept of the informal sector and informal employment. Myrdal, though, did not use the term 'informal sector' himself, a concept firstly observed by the Indian economist Rao (1938) and later also brought to attention by Lewis (1954). It is unclear whether Myrdal built on the ideas of Rao and Lewis or whether he came to similar conclusions.²

The notion of the informal sector has not been uncontested, however. For some scholars the informal sector is a temporary phenomenon that would disappear with the transition from agriculture to industrialization. Giving this sector too much attention would only cause a country's development path to deviate. Yet reality was and is different, as Myrdal and several other studies at that time showed. Neglecting the informal sector, and those working in the informal sector, would bypass a large, and often the poorest, part of the population. But for some others (de Soto 1989; Maloney 2004), the informal sector is not seen as a problem but as a solution. These authors lament the overbearing role of the central state and local authorities in halting private sector initiative. Supporting and stimulating the informal sector is thus not seen as a way of helping workers in a transition process, but rather as an important way of liberalizing the economy, and so, in the optic of these proponents, of fostering growth through liberalization.

Although the International Labour Organization (ILO) sponsored various analyses and studies on the informal sector, the informal sector remained a contested issue for many years, even in the ILO; the governance structure of the ILO (governments, employers, and workers) could not agree which of its three established constituents should represent those working in the informal sector. Under pressure from developing countries and scholars, in 2003 the statistical bureau of the ILO developed a comprehensive classification of informal sector activities and employment patterns (Figure 1). One consequence of that classification is that it rejects the existence of an informal sector per se, but rather acknowledges the existence of informal activities and an informal economy that are sometimes closely intertwined with the formal economy. There can be informal employment in the formal sector (Breman 2013). Often, households cannot be exclusively classified as belonging to the informal or formal sectors, and also economic activities can be a blend of informal and formal activities. An example is the Chinese *hukou* system which bans the registration of rural migrants who are economically and socially active in urban areas, thus creating an underclass of urban workers who are not registered in their place of work. They are therefore not classified in any proper sense and forego the benefits of properly registered urban workers.

² Hart (1971), after Myrdal had published *Asian Drama*, introduced the term 'informal sector', which was also brought to a larger public by ILO employment reports on Kenya, Sri Lanka, the Philippines, and Colombia in the seventies.

Figure 1: Conceptual framework for informal employment

Conceptual framework for informal employment^(a) (17th ICLS guidelines)

Production units by type	Jobs by status in employment									
	Own-account workers		Employers		Contributing family workers	Employees		Members of producers' cooperatives		
	Informal	Formal	Informal	Formal	Informal	Informal	Formal	Informal	Formal	
Formal sector enterprises					1	2				
Informal sector enterprises ^(b)	3		4		5	6	7	8		
Households ^(c)	9					10				

Notes

(a) Cells shaded in dark grey refer to jobs, which by definition do not exist in the type of production unit in question. Cells shaded in light grey refer to formal jobs. Unshaded cells represent the various types of informal jobs.

(b) As defined by the 15th ICLS resolution (excluding households employing paid domestic workers).

(c) Households producing goods exclusively for their own final use and households employing paid domestic workers.

Informal employment: Cells 1 to 6 and 8 to 10.

Employment in the informal sector: Cells 3 to 8.

Informal employment outside the informal sector: Cells 1, 2, 9 and 10.

Source: Copyright © International Labour Organization (2013).

Myrdal also emphasizes the capability of the labour force as an important factor in development. At various places, he is critical of the labour surplus theory, arguing that, because of restraining factors such as bad health, low literacy, bad living conditions, and cultural inhibitions, a labour reserve army is not fully operational to function properly in all sections of the economy, giving rise to the human capital approach to development. One of Myrdal's closest collaborators Paul Streeten, together with various analysts at the Institute of Development Studies at the University of Sussex and the ILO, expanded the human capital approach to the 'basic needs' approach (or basic human needs) as an objective of development.

Whereas in the human capital approach the quality of employment, measured by education and health, was seen as instrumental for achieving economic growth, the basic needs approach saw the removal of poverty, gainful employment, good education, and health as development objectives in themselves (Hopkins and van der Hoeven 1983). The notion of basic needs was well established in Indian planning (Srinivasan and Bardhan 1974). The basic needs approach, however, was not entirely accepted. According to some developing countries, the basic needs approach focused too much on the poorest developing countries and gave too little attention to international measures to foster national economic growth (van der Hoeven 1988). This fear was fed by the fact that the World Bank also became interested in the basic needs approach, but more as a social planning instrument without redistributive or transformative elements than as a strategy to foster large structural changes within countries and between countries. The basic needs approach was never fully developed nor implemented, as structural adjustment programmes (SAPs) started to dominate development thinking and financing in the major international financial institutions. Emphasis shifted back to economic growth, to the neglect of employment and basic needs.

2.2 Evolution of thinking on labour markets and employment

The notion of employment and related issues gained traction again towards the end of the twentieth century, being the main subject of the World Summit for Social Development in Copenhagen in 1995. The summit called for renewed attention to poverty reduction, employment, and social inclusion. It contained explicit recommendations for incorporating political, legal, economic, and social factors to foster productive employment and to reduce income inequality. Yet these recommendations were not to avail five years later, as full employment was absent in the original formulation of the Millennium Development Goals (MDGs) in 2000. The first reason for the absence of an employment goal in the MDGs was that employment was difficult to measure, violating the criterion of a measurable goal. A second reason for not including employment in the original formulation of the MDGs is the fact that concentration on direct poverty alleviation measures led to a relative neglect of policies dealing with employment in general (Amsden 2011).³ However, political pressure increased on the UN and in 2005 full employment was incorporated into the MDGs with the four indicators (listed in the footnote).⁴

In dealing with the impact of globalization and contributing to the debate on the MDGs, the ILO (1999) and various scholars (e.g. Stiglitz 2002) advanced the notion of productive employment by developing the concept of ‘decent work’, which emphasizes four elements: employment, social security, workers’ rights, and social dialogue. Employment refers to work of all kinds and has both quantitative and qualitative dimensions. It is convenient to group the different components of decent work into two categories: employment and social security in one, and workers’ rights and social dialogue in the other (Ghai 2002). In order to foster coherence of various national policies for decent work and to measure progress, Ghai (2005) suggested creating a decent work index. However, although the governing body of the ILO had accepted the idea of decent work, it could not agree on an explicit formulation of a decent work index, as opinions on the content and use of the index differed greatly for the same reason advanced by Amsden (2011) that employment was not included in the initial formulation of the MDGs.

In the years leading to the adaptation of the Sustainable Development Goals (SDGs) in 2015, proposals were made to give productive employment more promise in the process of international goal setting (Martins and Lucci 2013; Nayyer 2013a; van der Hoeven 2014). Unlike the MDGs, the SDGs incorporate a labour market perspective by elaborating on the themes of productivity and employment and adding the perspective of labour rights. The SDGs also advocate a redistributive growth path and policies that promote equality of opportunity and outcome (Luebker 2017). Since the SDGs also intend to foster vast improvements in education and health, as well as participation in decision-making, the concerns expressed by Myrdal about labour market issues have never been accentuated more in international discourse. However, as Myrdal also argues, what is in the benevolent planner’s mind is often not translated into actual

³ ‘To slay the dragon of poverty, deliberate and determined investments in jobs above starvation wages must play a central role, whether for self-employment or paid-employment. The grass roots approach as advocated in the MDGs to solving poverty doesn’t go far enough, because it aims only at improving the supply side of the labor market, making job seekers more capable, and not the demand side, making new jobs available for them. Employment generation is different from poverty alleviation because it has a concept behind it, “capital”. This means that the labor market is influenced by, and influences, all flows through the savings-investment nexus, including accumulation, distribution and innovation. It is at the heart of political conflict’. Amsden (2011: 55–64)

⁴ 1) growth rate of gross domestic product (GDP) per person employed; 2) employment-to-population ratio; 3) proportion of employed people living below \$1 (purchasing power parity (PPP)) per day; 4) proportion of own-account and contributing family workers in total employment.

policies, as economic, social, cultural, and religious power have a great influence on development in general and also on that in the labour market.

2.3 Analytical approach

The next sections analyse how various sub-regional groups and countries in Asia have fared in economic and labour market issues since 1965, firstly by comparing Asian regions to other developing regions and secondly by looking at growth and labour market dynamics in Asian countries themselves. This is done by constructing sets of countries that have grown fast with good labour market outcomes, those that have grown fast with weak labour market outcomes, and those that have not grown fast and have poorer labour market outcomes.

In this process, we use various indicators that Myrdal proposed in *Asian Drama* to define what good labour market and employment outcomes are. Economic growth is measured by growth in gross domestic product (GDP) per capita, and economic structure by the percentage of workers in agriculture and industry. Poverty rates and the percentage of working poor are indications of socioeconomic progress. Indicators of labour market performance are employment-to-population rate, labour force participation rate, unemployment rates, and the percentage of wage and salaried workers, all broken down by gender (something which Myrdal did not apply). Literacy rates and secondary school completion rates are not only indications of the quality of the labour force, contributing to higher productivity, but are also worthwhile goals in themselves. Using such an elaborate set of labour market indicators to get a picture of the employment problem acknowledges that in the relationship between labour markets, employment, and development, the causation runs in both directions, thus considering development, good labour markets, and employment both as a means and an end.

The classification of Asian countries into sets of countries with different growth and labour market regimes provides, in the following sections, a basis for analysing from a macroeconomic perspective how policies and institutions in certain countries have reinforced each other, leading to superior outcomes—something that Myrdal did not quite provide in his analytical framework.

3 The development experience

3.1 Asian regions compared with other developing regions

One can question the conclusion of *Asian Drama* that Asian countries are constrained in their development potential and their ability to create employment. Comparing developments in Asia with other major developing regions suggests that the drama was perhaps developing much more strongly in other regions than in Asia. *Asian Drama* paints a rather pessimistic picture of development in Asia. A few decades after its publication, other publications painted a rather different picture. A World Bank publication in the early 1990s spoke of an East Asian Miracle (World Bank 1993). It singled out five countries and two city-states in East Asia that underwent rapid development in terms of growth and employment. Of the fourteen developing countries to which Nayyar (2013b) attributes the potential to catch up with developed countries, seven are located in Asia.

Table 1 provides the growth, poverty, and employment-to-population trajectories of the major developing regions in the world over the fifty-year period from 1965 to 2015. The East Asia and Pacific region, with initially the lowest per capita income of all four regions in the table, shows an average annual GDP per capita growth of 6.2 per cent, which accelerated to 8.1 per cent over the period from 2000 to 2015. Its GDP per capita in 2015 thereby surpassed both

that of South Asia and of Sub-Saharan Africa. Although much lower than in East Asia and the Pacific, average per capita growth over the fifty-year period from 1965 to 2015 in South Asia was 3.1 per cent per annum, which also accelerated to 5.4 per cent in the period from 2000 to 2015. In contrast, annual per capita growth from 1965 to 2015 in the other major developing regions was much slower: 1.4 per cent in Latin America and only 0.2 per cent in Sub-Saharan Africa. Annual per capita growth in these regions during the 2000 to 2015 period was also much higher; in effect Sub-Saharan Africa's growth rate of 2.6 per cent surpassed that of Latin America, which had the lowest rate (2.2 per cent) of that period. These superior growth patterns and the patterns of diversification in Asian economies have been a steady process over the last fifty years as shown by Ocampo et al. (2009: Figure 3.1).

Regions in Asia also show great variation in the employment-to-population rate. Comparable and reliable figures are only available from 2000, and we concentrate therefore on that period. The fastest-growing region (East Asia and the Pacific) also shows the highest employment-to-population ratio, and although the ratio declined from 72.1 per cent in 2000 to 67.7 per cent in 2015, it remained the highest of all the developing regions. South Asia was the lowest of all in 2000 with 57.0 per cent, declining to 52.8 per cent in 2015. The difference between the fastest-growing Asian region and the slower-growing Asian region is thus striking. Labour has played a much greater part in the fast-growing Asian Pacific region than in the South Asian region. This can also be seen in the poverty figures, for which comparable data are available from 1980 to 2015. Using the \$3.20 per day poverty line, the percentage of people in poverty in the Asian Pacific region dropped from a staggering 93.5 per cent in 1980 to 17.6 per cent in 2015, while in the South Asian region it dropped from 84.2 per cent to only 52.0 per cent in 2015—a much slower pace of poverty reduction, which is more in line with that in Sub-Saharan Africa and Latin America.

The two Asian sub-regions also have lower unemployment rates. Because of comparability, sub-regional unemployment figures can only be used from 2000. In 2000 and 2015, the East Asia and Pacific region and the South Asian region had figures well below 5 per cent, while those of the other two developing regions were, though declining, much higher. As Myrdal noted several times, unemployment rates in developing countries are not always a good indicator of labour market performance, but the consistently lower figures for the Asian sub-regions confirm the other favourable developments of labour market indicators in those sub-regions.

Table 1: Regional growth, poverty, and performances, 1965–2015

	1965	1980	2000	2015	Annual Growth 1965-15	Annual Growth 1980-15	Annual Growth 2000-15
GDP PER CAPITA US\$ CONSTANT 2010 PRICES							
East Asia and Pacific excl. high-income countries I	298.7	553.9	1822.6	5496.4	6.2	6.9	8.1
South Asia	338.4	405.4	751.4	1602.6	3.1	3.9	5.4
Sub-Saharan Africa	1,231.9	1,464.3	1,172.2	1,656.2	0.2	0.8	2.6
Latin America, excl. high-income countries	4,101.6	6,715.3	7,137.9	9,097.2	1.4	1,1	2.2
% POVERTY \$1.90 PER DAY							
East Asia and Pacific excl. high-income countries I		80.47	38.5	3.68			
South Asia		54.71	39.6	14.66			
Sub-Saharan Africa		-	50.30	40.98			
Latin America, excl. high-income countries		16.30	13.96	4.91			
% POVERTY \$3.20 PER DAY							
East Asia and Pacific excl. high-income countries I		93.55	67.00	17.64			
South Asia		84.13	77.5	51.97			
Sub-Saharan Africa		-	78.19	66.48			
Latin America, excl. high-income countries		31.05	27.53	11.59			
EMPLOYMENT POPULATION RATE							
East Asia and Pacific excl. high-income countries			72.1	67.7			-0.4
South Asia			57.0	52.8			-0.7
Sub-Saharan Africa			63.2	64.3			0.1
Latin America, excl. high-income countries			57.6	60.9			0.4
UNEMPLOYMENT RATE							
East Asia and Pacific excl. high-income countries			4.6	4.4			
South Asia			4.4	3.9			
Sub-Saharan Africa			8.4	7.2			
Latin America, excl. high-income countries			10.9	7.0			

Note: See Appendix 1 for definitions of variables and of regions.

Source: Author's calculations based on data from World Bank (n.d.a and n.d.b) and ILO (n.d.).

Kahn (2012) explains the superior performance of the Asian sub-regions, especially that of East Asia, by continued employment intensive growth, which was stimulated initially by a transformation in agriculture, caused by more egalitarian landholdings, and by a consequent increase in industrial activities, with initial high output employment elasticities stimulated by a strong final demand regime either through exports or through internal consumption. The next sub-section analyses how these and other factors have played out in different categories of Asian countries

3.2 Diverse developing experience in Asian countries

This sub-section provides a factual analysis of labour market performance and development in South and East Asian countries over the last fifty years and deals with the diversity of Asian experience, covering, unlike Myrdal's study, a substantial number of countries. It traces these countries' various development paths and labour market performance. The analysis examines factors underlying success or failure in labour market performance by constructing a set of Asian countries classified by high or low growth and by good or weak labour market performance that experienced: (a) rapid economic growth with good labour market performance, (b) rapid economic growth with weak labour market performance, or (c) neither rapid economic growth nor good labour market performance, where underemployment persisted in the subsistence sector and grew in the urban informal sector. A fourth theoretical possibility of a country with low growth and good labour market performance can be excluded, based on actual experience over the last decades. Furthermore, because of the great diversity in growth performance in Asia, it is more appropriate, for analytical purposes, to distinguish not two but three different country groupings with various growth performances.

Growth regimes

Establishing different country groupings on growth and labour market outcomes is based on comparative data from the ILO databank (ILO n.d.), the UNU-WIDER World Income Inequality Database (UNU-WIDER n.d.), the World Bank World Development Indicators (World Bank n.d.a), and the World Bank PovCalNet database (World Bank n.d.b). Cambodia, Bhutan, and Myanmar were not retained due to a lack of consistent time series, and Taiwan could not be retained as it was not included in the comparative databases mentioned above. Furthermore, for reasons explained in Nayyar (2013), the city economies of Singapore and Hong Kong were not retained either. This leaves a group of thirteen East, South, and South East Asian countries that can be grouped over the fifty-year period from 1965 to 2015 as follows (see also Table 2⁵):

- 4 fast growers, with an average per capita growth rate of more than 4.5 per cent
- 5 steady growers with an average per capita growth rate of between 4.5 and 3 per cent
- 4 slow growers with a per capita growth rate of less than 3 per cent.

The first group, in descending order of per capita growth, is: China, South Korea, Vietnam (data for 1965–85 missing), and Thailand. However, these countries showed considerable variation in growth performance over the fifty-year period. South Korea had the second-highest growth per annum rate of all countries from 1965 to 1975 (8.73 per cent). But, its growth rate was somewhat affected by the financial crisis in 2007, with its annual growth rate being only 2.73 per cent over the period from 2006 to 2015, which was more in line with growth in the developed countries in the group to which it belonged in that period.

⁵ See Appendix 1 for definitions of the variables and regions.

China shows an opposite trend, starting with an annual growth rate of 4.26 per cent in the 1965–75 period, rising to annual growth rates of over 8 per cent during the 1986–95, 1996–2005 and 2006–15 periods. Thailand had steady growth of 4 per cent during the first two periods from 1965 to 1975 and 1976 to 1985, which peaked in the decade from 1986 to 1995 and then fell back, partly as a consequence of the Asian crisis in 1998, to more modest growth rates of 2.5 per cent and 2.75 per cent in the 1996–2005 and the 2006–15 periods. Vietnam’s growth rate (as measured over the 10-year periods from 1986) was continuously steady at around 5 per cent.

The second group, that of steady growers, contains Laos, Malaysia, Sri Lanka, Indonesia, and India. Laos (1965–85 data missing), though starting at a lower annual growth level of 2.93 per cent in the period from 1986 to 1995, gradually increased annual growth to 6.37 per cent in the period from 2006 to 2015. In contrast, Malaysia had strong annual growth during the first three periods (1965–75, 1976–1985, and 1986–1995), but then tapered off over the last two 10-year periods, dropping to below 4 per cent. Indonesia also grew annually by more than 4 per cent for the first three 10-year periods, but had exceptionally weak performance of only 0.85 per cent annual growth during the period from 1996 to 2005. India and Sri Lanka both showed increasing annual growth levels over the five 10-year periods. India started from a low base of 1.25 per cent and 1.83 per cent growth from 1965 to 1975 and from 1976 to 1985, rising to 5.84 per cent from 2006 to 2015. Sri Lanka started on a somewhat better footing with 2.41 per cent annual growth from 1965 to 1975, gradually nudging up to above 5.49 per cent from 2006 to 2015.

The group of slow growers consists of Pakistan, Nepal, Bangladesh, and the Philippines. Pakistan started with modest annual growth during the first three 10-year periods, falling to low levels of 1.61 per cent and 1.08 per cent during the last two 10-year periods. Bangladesh shows the opposite pattern, starting from strong negative annual growth of -2.30 per cent from 1965 to 1975 and moving to much higher growth during the period from 2006 to 2015. Nepal shows a similar pattern. The Philippines has a more erratic growth pattern, starting the 1965–75 period with annual growth of 2.41 per cent, followed by two decades of almost no or negative growth, but only nudging up to 3.64 per cent in the period from 2006 to 2015.

As the above description of growth performance over fifty years from 1965 to 2015 shows, development in the countries under consideration was neither uniform nor linear. Some countries did better in the earlier part of the fifty-year period, while others, because of the end of war, internal turbulence, or changes in policies, did better in the more recent decades.

Table 2: Growth characteristics, selected Asian countries, 1965–2015

Variables	Chi	Kor	Vie	Tha	Lao	Mal	Sri	Indo	Indi	Pak	Nep	Bdh	Phi
Average per capita GDP growth													
65-15	7.91	6.53	5.25	4.51	4.48	3.85	3.56	3.50	3.36	2.19	1.92	1.82	1.11
86-15	9.0	5.0	5.4	3.8	4.5	3.5	4.3	3.1	4.7	1.8	2.5	3.2	2.0
65-75	4.26	8.73		4.34		4.37	2.41	4.09	1.25	2.29	-0.10	-2.30	2.23
76-85	7.81	6.30		4.04		4.12	3.69	3.91	1.82	3.42	0.84	1.29	-0.41
86-95	8.38	7.81	4.85	8.34	2.93	6.22	3.24	4.99	3.18	2.18	2.47	1.74	0.47
96-05	8.13	4.58	5.09	2.45	4.32	1.92	3.44	0.85	4.22	1.61	2.10	2.95	1.60
06-15	8.56	2.73	4.78	2.72	6.37	2.66	5.49	4.33	5.84	1.08	3.37	4.85	3.64
Per capita GDP 2010 US\$													
65-75	221	1,850	392	900	427	2066	691	782	385	442	281	370	1,284
06-15	4,770	22,227	1,373	5,130	1,199	9,409	2,958	3,209	1,376	1,062	599	789	2,198
Per cent poverty													
86-95	86.8		78.3	14.7	69.3	11.9	42.3	88.2	80.8	87.3	86.6	80.6	53.6
06-15	23.7	0.7	28.1	2.9	62.2	3.3	19.3	48.8	65.2	47.3	50.9	59.2	37.9
Per cent working poor													
2000	34.4	0.0	36.4	1.1	75.8	4.1	6.0	47.6	41.0	16.7	46.2	80.7	15.2
2015	4.7	0.0	4.0	0.1	49.3	3.0	4.1	10.4	13.2	7.8	8.2	66.2	8.0
Per cent employed in agriculture													
86-95-86-958695	58.2	17.7	63.8	61.4		26.1	41.9	52.8	55.8	49.7	70.9	62.8	45.9
06-15	35.5	6.6	46.5	39.6		13.3	31.2	37.9	51.1	43.9	73.9	47.5	33.0
Per cent employed in industry													
86-95-95	22.1	34.2	13.5			27.0	21.4	13.3	19.0	19.4	11.6	13.6	15.3
06-1506-15	28.5	25.0	21.6			28.2	25.8	19.7	22.4	20.6	10.8	17.7	15.4

Note: See Appendix 1 for definitions of variables and regions.

Source: Author's calculations based on data from World Bank (n.d.a and n.d.b) and ILO (n.d.).

Looking at a more recent period (1986–2015), the picture of economic development changes only slightly. Only three countries are classified differently. In the 1986–2015 period, India belonged to the group of high-growth countries instead of the group of medium-growth countries, Bangladesh to the group of medium-growth countries instead of the group of low-growth countries, and Thailand to the group of medium-growth countries instead of the group of high-growth countries (Table 3).

Table 3: Country classifications by economic growth, 1965–2015 and 1986–2015

	High growth	Medium growth	Low growth
Period 1965–2015	China, S. Korea, <i>Vietnam</i> , Thailand	Malaysia, Indonesia, <i>Laos</i> , India, Sri Lanka	Pakistan, Nepal, Bangladesh, Philippines
Period 1986–2015	China, S. Korea, Vietnam, India	Thailand, Malaysia, Indonesia, Laos, Sri Lanka, Bangladesh	Pakistan, Nepal, Philippines

Note: Countries in *italics* do not have information for all time periods.

Source: Table 2.

Thus, out of the thirteen countries, only two made it to a higher-growth league in the later period, while only one degraded. So the growth dynamism that Asian countries had shown from 1965 until 2015, at the time when *Asian Drama* was written was reinforced, with a few exceptions, in the period from 1986 to 2015. Labour market regimes

Labour market regimes

How do the growth regimes in the various countries relate to their labour market regimes? As noted by Myrdal, consistent and comparable information on social development and labour markets is much harder to come by than that on economic development. Thanks to efforts of Asian scholars like Amartya Sen and Mahbub ul Haq, consistent and comparable information on social development has gradually become more available since the 1990s. So, in order to appraise how labour markets have performed under different growth regimes in Asian countries, we concentrate the discussion in this sub-section on the 1986–2015 period rather than on the full 1965–2015 period considered above.

Myrdal cautioned against using the western concept of unemployment to appraise the employment or labour market situation (Myrdal 1968: 998, 1,118, and 2,221), as did David Turham (1970). The question is whether such caution is still relevant today. This is indeed the case. Ghose et al. (2008) have convincingly shown that unemployment rate is not an appropriate measure to distinguish whether a country belongs to a good or weak labour market regime. In countries without any decent form of unemployment benefits, poor and middle-income workers cannot afford to be unemployed, whereas richer workers are often listed as unemployed while they are waiting for more highly paid jobs (Ghose et al. 2008: 79). A cursory look at the unemployment figures in Table 3 confirms this. A country like China, with a rapidly expanding labour market, has consistently higher unemployment figures than India, Nepal, or the Philippines. Thus the unemployment rate is not a very accurate measure to compare the functioning of labour markets in Asian developing countries.⁶

⁶ This is not to say that unemployment figures are without use. For example, increases in unemployment figures do signal cyclical or structural slack in activities in the modern sector that need to be acted upon. Also, as we will discuss later, breaking unemployment figures down into figures for males and females can give an indication of the involvement of males and females in the labour market in a particular country.

Table 4: Labour market characteristics, selected Asian countries, 1985–2015

	Chin	Kor	Vie	Tha	Lao	Mal	Sri	Indo	Indi	Pak	Nep	Bdh	Phi
Employment pop ratio													
86-95	75.6	59.4	76.5	75.0	79.3	59.7	49.8	63.1	58.3	47.6	83.3	71.7	60.0
06-15	68.3	58.6	75.6	72.0	76.5	59.3	51.5	62.7	53.6	50.7	81.1	60.4	59.9
Total LFPR													
86-95	79.2	60.8	78.5	77.1	81.3	61.9	58.5	65.8	60.7	50.2	85.8	74.2	65.6
06-15	71.4	60.7	77.3	72.7	77.6	61.3	54.2	67.7	55.7	53.8	83.4	63.0	64.5
Female LFPR													
86-95	72.9	47.3	73.2	66.4	80.0	45.2	39.7	47.5	35.4	13.8	81.0	23.6	47.0
06-15	64.0	50.3	72.9	64.2	77.0	45.8	35.4	50.7	29.5	22.2	80.3	30.2	48.7
Unemployment rate total													
96-05	4.5	4.1	2.3	2.0	1.8	3.2	8.9	5.9	4.2	6.9	2.3	3.4	3.7
06-15	4.3	3.4	2.2	0.9	0.8	3.2	5.0	5.7	3.7	3.3	2.3	4.1	3.6
Unemployment rate male													
96-05	4.9	4.6	2.2	2.0	1.9	3.0	6.5	5.4	4.1	5.4	2.6	3.4	3.4
06-15	4.7	3.7	2.2	0.9	0.9	3.0	3.6	5.3	3.5	2.9	2.7	3.3	3.4
Unemployment rate female													
96-05	4.0	3.3	2.4	0.8	3.7	3.7	13.7	6.86	4.4	15.4	1.9	3.6	4.1
06-15	3.8	3.0	2.3	1.4	3.5	3.5	7.8	6.3	4.4	5.2	1.9	6.2	3.8
Per cent wage salaried workers, all													
96-05	46.2	61.5	21.2	39.8	11.1	74.7	58.6	36.2	13.6	36.8	20.5	34.5	50.0
06-15	59.7	67.6	33.5	43.9	14.7	74.7	56.2	42.4	17.6	38.1	18.4	37.6	55.0
per cent wage salaried workers, female													
96-05	45.1	61.5	17.4	38.6	7.8	75.9	59.0	30.8	9.1	31.1	10.6	15.5	49.8
06-15	59.7	70.7	28.0	43.2	9.9	77.0	54.7	36.3	14.4	23.8	8.9	21.7	53.3
Literary rate													
96-05	90.9		90.2	93.1	70.3	88.7	90.7	90.4	61.0	49.9	48.6	47.5	92.6
06-15	95.1		93.5	94.3	58.3	93.1	90.8	93.3	66.0	55.5	59.6	46.9	95.9
Per cent secondary school completion													
06-15	22.3	69.4	25.7	26.4		50.2	56.1	28.4	26.9	24.6	35.2	17.1	57.2

Note: See Appendix 1 for definitions of variables and regions.

Source: Author's calculation based on World Bank (n.d.a and n.d.b) and ILO (n.d).

In order to establish whether a country belongs to a good or weak labour market regime, we use a mixed set of labour market indicators such as working poor, employment in agriculture, employment-to-population ratio, male and female labour force participation rates, percentage wage, and salaried workers by sex, literacy rate, and secondary school completion, as indicators of the quality of the labour force itself (see Table 4).

The group of fast growers over the 1986–2015 period show a mixed pattern in terms of labour market regime.⁷

China, Korea, and Vietnam show:

- fast declining poverty rates (down from 86.8 per cent over the 1986–95 period to 23.7 per cent over the 2006–15 period in China and down from 78.3 per cent to 28.1 per cent in Vietnam, while poverty is non-existent in Korea);
- a fast declining percentage of working poor;
- a rapid or steady decline of the percentage of workers in agriculture (down from 17.7 per cent to 6.6 per cent in Korea, from 63.8 per cent to 46.5 per cent in Vietnam, and 58.2 per cent to 35.5 per cent in China);
- high and increasing literacy rates (China 95.1 per cent and Vietnam 93.5 per cent in 2015); and
- a high employment-to-population rate of over or near 70 per cent in 2015.⁸

Furthermore, China and Korea have a high percentage of wage and salaried workers. Yet, the share of wage and salaried workers in Vietnam falls in the same range as that of countries in the group of steady growers and slow growers. However, India's structural and labour market profile resembles more that of countries with a lower growth rate: high levels of poverty, high percentage of workers working in agriculture, lower levels of labour force participation rate, low levels and only gradually increasing levels of wage and salary workers, and low and only slowly increasing literacy rates. The only indicator where India levels with the other countries in the group of high-growth countries is that of secondary school completion rates.

The labour market outcomes of the group of steady growers are rather diverse. In Laos and Bangladesh, the poverty rate has declined by less than in other countries, resulting in a still substantial level of working poor. Sri Lanka, Malaysia, Thailand, and Indonesia have had much faster poverty reduction than Laos and Bangladesh. Literacy rates have declined in Laos and, though growing, remain low in Bangladesh. Only in Malaysia is the share of wage and salaried workers high. The number of individuals who have completed secondary school education varies substantially in this group of steady growers, with the lowest in Bangladesh (17.1 per cent) and highest in Malaysia (56.1 per cent).

The group of slow growers all have still high poverty rates ranging from 37.9 per cent in the Philippines, to 47.3 per cent in Pakistan, and 50.9 per cent in Nepal. Pakistan and the Philippines also have low employment-to-population rates (Pakistan's being the lowest of all countries considered at 47.6 per cent). The rate in Nepal in contrast is the highest in the region. The percentage employed in agriculture varies considerably in this group, with relatively lower rates in

⁷ Because of its developed country status in later periods, the employment to population rate in Korea is now lower than that for the developing or emerging countries in the Asian region.

⁸ Because of its developed country status in later periods, the employment-to-population rate in Korea is now lower than that for the developing or emerging countries in the Asian region.

Pakistan and the Philippines (43.9 and 33.0 per cent) and a rather higher rate in Nepal (73.9 per cent). Literacy rates and secondary school completion rates are also very low in this group, except for the Philippines, which has high literacy and secondary school completion rates.

The considerations discussed above lead then to the following country groupings, which depict various growth and labour market regimes (Table 5).

Table 5: Country classifications by growth and labour market regime 1986–2015

	High growth	Medium growth	Low growth
Good labour market regime	China, S-Korea, Vietnam,	Malaysia, Indonesia, Thailand	
Weak labour market regime	India	Laos, Sri Lanka, Bangladesh,	Pakistan, Nepal, Philippines

Source: Tables 2, 3, and 4.

Wages, productivity, and wage shares

How wage developments relate to productivity growth is also important for the characterization of a good labour market regime. If wages lag behind productivity growth, this implies that workers profit less from the growth in the economy, causing in most cases a reduction in final demand, unless the increased profits are invested fully and effectively, leading to rapid future employment creation, in which case lower wages are ‘compensated’ with higher employment (see also Nayyar 2014).

Unfortunately, for most of the countries and time periods considered, there are no complete data sets of wages and productivity, nor of the wage shares in GDP, so analysis of these issues needs to be restricted to a smaller number of countries and also to a shorter time period.

Figure 2 provides information for the 2006–14 time period for Korea, China, India, and Indonesia, countries where the majority of the population considered in this paper live. Productivity grew fastest in China (80 per cent) and India (60 per cent), but less in Indonesia (about 40 per cent) and Korea (20 per cent). In all countries, real wages grew more slowly than productivity, with the discrepancy being much greater in India than in the other countries, confirming the classification of India as a weak labour market regime.

Figure 2: Cumulative labour productivity and real wage growth (Korea, India, Indonesia and China) 2006=100



Source: Copyright © International Labour Organization (2016: Figure B1-1, page 5).

Female employment and labour force participation

Another striking point in the classification by growth and labour market regimes is the different position of women in the labour market. The most striking case is that of the group of countries in the fast-growing regime. Countries in this group that also have a good labour market regime all have a much higher female labour force participation rate than the countries with a weak labour market regime (for the 2006–15 period: China 64.0 per cent and Vietnam 72.9 per cent, compared to India 29.5 per cent). Also, the difference in the percentage of wage and salaried workers is higher on average for the fast-growing countries with a good labour market regime than for those with a weak labour market regime. In general, countries with lower female labour force participation rates belong, whatever their growth regimes, to the group of countries with a weak labour market regime (Table 4).

As explained earlier, because of country-specific anomalies and a correlation with the state of the economy, we did not consider the unemployment rate as a useful indicator to compare Asian countries over a long time period, but the relation between male and female unemployment rates gives a strong indication of the labour market regime in a particular country. In countries with a high or medium growth regime and with a good labour market regime, female unemployment is similar to male unemployment, while in countries with a slow or medium growth regime female unemployment is higher and sometimes substantially higher (Pakistan, Sri Lanka, Bangladesh) than in other country groupings. Thus, the way women are treated in the labour market has a clear effect on the economic and social status and growth potential of Asian countries (Table 6).

Table 6: Female and male unemployment rates 1996–2015

	Female unemployment rate lower or equal to male unemployment rate	Female unemployment rate larger than the male rate but less than 1.5 times the male rate	Female unemployment rate larger than 1.5 times the male rate
Period 2006–15	China, S. Korea, Vietnam, Laos, Nepal, Thailand	Malaysia, Indonesia, India, Philippines	Bangladesh, Pakistan, Sri Lanka
Period 1996–2005	China, S. Korea, Laos, Vietnam, Thailand	Bangladesh, Malaysia, Indonesia, India, Philippines, Nepal	Pakistan, Sri Lanka

Source: Table 4

4 Policies, institutions, and outcomes

Can we distinguish specific policies and institutions for the group of countries with high or medium growth and good labour market outcomes?

Common characteristics of the fast-growing countries with good labour market outcomes (Korea, China, and Vietnam) are that these countries did not rely exclusively on the market for allocation of resources and that their macroeconomic policies did not correspond to neoclassical macroeconomic prescriptions. Another important characteristic was their initially low household income inequality. Their low household income inequality was itself the result of more equal factor distribution of income, labelled by Adelman (1979) as redistribution before growth. The most salient examples of equal factor distribution were programmes of land redistribution and early investment in education. This distribution in land and human capital assets resulted in higher factor rewards for workers and peasants when the economic process started to take off, and left fewer factor rewards for capital owners, thus creating spells of virtuous growth.

Amsden (2011) in her assessment of the early developments in East Asia argues that the institutions in these countries constrained, in the development process, the influence of capital ('taming capital'), not through social contracts or labour market agreements, as happened in the equitable high-growth episode in Europe in the aftermath of the Second World War, but through state interventions by enlightened bureaucracy, which either directly (China) or indirectly forced firms to invest, to expand, and to create employment. However, the effect was the same: productivity gains were used to invest, to expand employment, and to increase wages. Taylor (2010) labels such a virtuous growth regime as mildly profit-led, where there is room for wage growth and where profits were reinvested in the economy, which on the one hand added to a demand impulse, but also led, through productivity gains, to an expansion of supply (the so-called Kaldor-Verdoorn mechanism).

This virtuous growth pattern of the fast-growing Asian countries was the result of what Khan (2007) calls growth-enhancing governance. Kahn contrasts this growth-enhancing governance with market-enhanced governance, a set of policies advocated by the Bretton Woods institutions in the 1980s and 1990s as part of the Washington Consensus.

Two important observations are in order. Firstly, although the fast-growing countries with good labour market regimes started their development process with low inequality regimes, in some countries household inequality has since risen substantially (for example, in China where income inequality is reaching a Gini ratio of 0.5 or more (UNU-WIDER n.d.)). This begs the question of the sustainability of current growth regimes, an issue that we will take up in more detail in the section on future prospects.

A second observation is that several countries which did not manifest a high-growth regime, also have, or had at least in the past, a low inequality regime. Hence, a low inequality regime is a necessary but certainly not a sufficient condition for a virtuous growth and employment pattern.

Therefore, another common element in the three fast-growing and the three medium-growing countries with good labour market outcomes must be sought in the drivers of growth. All countries in this group made use of external markets to sustain a demand-led growth regime. However, as in the case of their investment regime, external demand was not left to an invisible hand. On the contrary, firms were encouraged to export, with clear export targets. Korean firms were not allocated foreign exchange or further export licences if they had not met earlier agreed export targets and investment (Amsden 2007). All the virtuous growing countries defied the lessons from the ‘Washington Consensus’, which came to dominate policy advice from the Bretton Woods institutions in the 1980s (van der Hoeven and Taylor 2000).

Government policies to increase agricultural productivity through land redistribution, investment, subsidies, and the provision of ‘public goods’ for agriculture and for human development have also been a turning point in countries with fast and medium growth and with a good labour market regime. In the case of China, Saith (2016) argues that:

Chinese advantage originates not in the market reforms era, but in the socialist period when the countryside was organized in rural collectives. In India, rural institutions were generally obstructive, sticky and posed a constraint to policies of rapid transformation; in China, the institutional profile, far from setting a constraint, was itself converted into a policy instrumental variable, where institutional features were designed and periodically redesigned primarily using the criteria of their functional appropriateness for generating rural accumulation and growth. (Saith 2016: 85–86)

The countries with fast and median growth with a good labour market regime, despite different political constellations, manifested a Lewisian development process where labour could move to industry—a process that Myrdal himself had cast doubt upon because of the inability of the rural workforce to be productively engaged in industry. The above makes clear that countries with an explicit growth regime, based on strong demand impulses and managing a fair income distribution regime, showed better performances in the labour market as employment generation and increasing rewards on the labour factor made a virtuous growth path possible.

The issue of labour intensity in sectors of the economy cannot be left unaddressed. Myrdal himself, in discussing cottage industries (Myrdal 1968: chapter 25), refers to this at various instances and favours development of cottage industries. Designing policies for labour-intensive activities is often heralded together with programmes for poverty alleviation as the magic key to solve the unemployment problem in developing and emerging countries (for an insightful and critical discussion see Amsden 2011). However, in the countries with virtuous growth patterns, the stimulating cottage industries played a lesser role than in the countries that did not manifest a virtuous growth pattern. The formal industry sector in India is less labour intensive than in the other countries in the group of fast-growing countries (Ghose 2016; Verick 2016)⁹. Breman (2013)

⁹ Ghose (forthcoming), however, argues that it would be incorrect to look at industrial performance only in the formal sector. He finds that wages and other labour market characteristics of the informal industrial sector are gradually improving, and it would thus be wrong to only take the performance of the formal industrial sector into account.

argues furthermore that maintaining a large informal workforce is a necessary element in India to keep workers' wages low.

Comparing the trajectories of India and China shows the importance of well-coordinated industrialization policies for good labour market outcomes. The success of China in industrialization compared to India is well demonstrated by Felipe (2012: 101): whereas the actual share of manufacturing to total output in China is *higher* than its predicted share based on its GDP per capita level (34.5 per cent versus 27.3 per cent), the actual share in India is *lower* than the predicted share (15.85 per cent versus 19.55 per cent), figures for 2000. Female labour force participation, the percentage of wage and salaried workers, employment-to-population rate, and literacy rate are all higher in China than in India

While India has made efforts to boost industrialization since 2000, its share of manufacturing remains below its potential. Various policies have contributed to this. Nayyar (2018) points to the low level of loans from development banks in India, where the percentage of outstanding loans from development banks to GDP dropped over the period from 2000 to 2010 from 7.4 per cent to 0.8 per cent, while the percentage rose in China from 6.2 per cent to 11.2 per cent. Chandrasekhar and Ghosh (2006) point to the success of the more dirigist macroeconomic policies in China:

There is an overarching conclusion, of wider relevance, that can be drawn from the comparative analysis of the experiences of macroeconomic management in China and India. Discussions on macroeconomic policies counterpose the policies adopted in the dirigiste period, ostensibly characterized by financial repression, with a framework characterized by a reduced role for fiscal policy and for state expenditure and a greater role for a liberalized financial sector in mobilizing and channelling investment'. 'The Chinese experience make it clear that such either-or dichotomies are not inevitable'. 'India's experience suggests that relentlessly pursuing the transition to a marketist macroeconomic framework makes it difficult to sustain investment and growth and to translate the benefits of that growth into better outcomes with regard to employment and poverty reduction. (Chandrasekhar and Ghosh 2006: 278–9)

The amalgam of economic and labour market policies in China led to a process of 'cumulative causation' (as Myrdal labelled such processes) that fostered effective transformation and good labour market outcomes, as compared to India.

In order to flesh out why some other countries in Asia had high growth and good labour market outcomes and others not, Box 1 compares development and labour market patterns in Bangladesh and Vietnam. Because of past wars, these countries shared tremendous development challenges in the 1970s and even later on. Bangladesh (created in 1972) and Vietnam (unified in 1975) both emerged from serious armed conflicts costing many lives and destroying large chunks of infrastructure, and needed to transform their economies and society. Box 2 concludes that the gradual and interventionist policies in agriculture and manufacturing in Vietnam led to a virtuous growth path and better labour market outcomes than in Bangladesh.

Box 1: Transformation policies and labour market outcomes in Vietnam and Bangladesh

After unification, Vietnam adopted a very centralized planning economy. Its first five-year plan was somewhat of a failure; therefore in 1986 Vietnam adopted a home-grown reform programme, Doi Moi, which resulted in opening up of the economy, but with a strong role for the communist party, with a fair amount of government intervention in agriculture and with vigorous industrial policies (Tarp 2017: chapter 1). Bangladesh also started with a strong socialist-oriented government, but after a period of military rule and later a more democratic regime, free market fundamentals were restored in Bangladesh. Export-processing zones were established from 1983 and Bangladesh became one of the world's largest exporters of garments (Jenkins and Sen 2006).

The interventionist agricultural policy in Vietnam resulted in a system where out of around 2,000 of all rural households 41 per cent were farming purely for the market, 18 per cent were farm labourers, with the remaining households having diversified income sources. In Bangladesh rural households were dominated by rural households with diversified income (48 per cent) and by households living on farm labour (40 per cent) with only 6 per cent purely engaged in farming (World Bank 2008: 76; Fields 2012). In the 1986–95 decade the labour market structures were similar in Vietnam and Bangladesh. However, the interventionist industrial policy in Vietnam paid off. While in 1990 the shares of manufacturing in GDP in Vietnam and Bangladesh were more or less the same (12.3 and 13.3 per cent respectively), in 2005, Vietnam's share had greatly surpassed that of Bangladesh (20.6 versus 16.5 per cent) (Szirmai 2012: 406–20).

These different transformation paths in Vietnam and Bangladesh also resulted in better labour market outcomes in Vietnam. In the 1986–95 period, the shares of agricultural employment and manufacturing employment were the same in both countries (around 64 per cent and 14 per cent). This pattern changed over the 2006–15 period to the extent that the share of agricultural employment declined in both countries to around 47 per cent, but the share of manufacturing employment became larger in Vietnam (around 22 per cent) than in Bangladesh (18 per cent). Higher productivity in manufacturing in Vietnam also resulted in drastic changes in poverty profiles. Whereas the percentage of people living below the poverty line in the 1986–95 period was about the same (78 per cent in Vietnam and 80 per cent in Bangladesh), the rate drastically decreased in the 2006–15 period in Vietnam to 28 per cent.

Hence, while both countries became export-oriented, the gradual interventionist policies in agriculture and manufacturing in Vietnam led to better economic and labour market outcomes than in Bangladesh.

Source: Author.

5 Future prospects

Myrdal's predictions and the subsequent developments in the majority of Asian countries show that predicting a long-term development trajectory of a country or of a region, and the evolution of the labour market therein, is hazardous. As Myrdal observed, development depends on economic, social, cultural, and religious factors as well as on strengthening institutions for a developmental state. The previous sections showed how a positive mix of these factors lead in some fast-growing countries to a virtuous development path with good labour market outcomes, but also how a negative mix can lead to slower development and weaker outcomes in the labour market.

We see six, not entirely independent, factors determining future development of economies and labour markets in Asia, which all point to the need for a continuation or for a stronger adoption of the demand-led growth which was so successful in some Asian countries.

5.1 Demographic trends and challenges

Asian economies have witnessed a substantial lift from demography. Demographic dividends—characterized by falling child dependency, a growing working-age population, and a moderate rise in old-age dependency—have contributed up to 2 per cent to annual GDP growth (ADB 2018). The transition to an older population in the foreseeable future will deprive the region of a main driver of its economic success. While demographic dividends are vanishing in China and Thailand today, Indonesia, Malaysia, and Vietnam are expected to lose their dividends by the 2020s. India and the Philippines should be able to benefit from their youthful populations for a little longer—possibly up until 2030 (Scherpf 2015).

Demographics are not a fate, and countries can develop coping mechanisms that facilitate a sustainable transition towards older societies (ADB 2018). Such mechanisms include immigration and enhanced productivity. In addition, the participation of older people and women in the labour force needs to be encouraged (Scherpf 2015). Across emerging Asia, the retirement age is still fairly low (55 in Malaysia, Indonesia, India, and Thailand, 60 in China and Vietnam, 62 in Singapore, and 65 in the Philippines). Against the background of increasing life expectancy, a rise in the legal retirement age can be a simple yet effective policy response. Eventually, countries need to find meaningful and fair ways to transfer resources from the working population that generate savings to retirees with inadequate income to sustain their consumption. Given the changes in traditional family-based support structures, the development of comprehensive public transfer schemes has to be a key policy priority (Scherpf 2015). Asia's financial systems still lag substantially behind the region's dynamic real economy, and many Asian countries have labour markets that discourage employers from hiring older workers (Park et al. 2015).

5.2 Migration

Demographic developments also affect international migration. But migration is even more affected by economic and political factors. ESCAP (2016: 51) observes a great divergence between countries in the Asian region and classifies the region into three groupings: those with a GDP per capita below \$10,000 (PPP in 2012 \$), those with a GDP per capita between \$10,000 and \$20,000, and those with a GDP per capita greater than \$20,000. In countries in the last group, which contains e.g. South Korea and Malaysia, in-migration is greater than out-migration, in the middle-income group (containing e.g. China and Thailand); in- and out-migration are more or less equal; and in the lowest income category (containing all the other countries we analysed in Section 3) out-migration still predominates. For these countries, remittances (from countries in as well as outside the Asian region) still remain a considerable part of GDP. For Bangladesh, Nepal, Pakistan, Philippines, Sri Lanka, and Vietnam, remittances still contributed over 5 per cent to GDP in 2016 (ADB 2018: 56). However, as other countries in the region that have grown quickly have shown, out-migration and remittances can change quickly.

The UN estimates that based on population and economic projections China, South Korea, Thailand, Malaysia, and Sri Lanka will need immigrants to maintain dependency rates and economic growth, while countries in South Asia as well as Indonesia and Laos can 'afford' out-migration (The Economist 2017). Furthermore, technological development (discussed below) also changes the characteristics of migration. The World Bank (2009: 158) observes that skilled out-migration from East Asia and the Pacific and from South Asia is already over 60 per cent, the highest for all regions in the world. Binding labour shortages in the Asian region over the next 25 years can only be avoided, if Asian countries improve their collaboration for an orderly migration regime.

5.3 Technology, industrialization, and labour replacement

Technological development and industrialization have played a major role in the fast-growing Asian countries with a virtuous growth path and superior labour market outcomes (Lin 2012). For the fast-growing countries that have reached a certain level of industrialization and with good labour market performances (like China), the question is whether further industrialization should be pursued or whether more attention should be given to developing various activities in the high-end service sector, as manufacturing costs are rapidly rising (McKinsey 2017a). In the transition to more service-oriented activities, artificial technologies can dramatically boost productivity. McKinsey (2017b) argues that this increased productivity could be a crucial capability for China to sustain its future economic growth as the country's working-age population declines. It estimates that automating workplaces with artificial intelligence could add 0.8 to 1.4 percentage points to GDP growth annually, depending on the speed of adoption. However, realizing this potential in China also depends on automating workplaces across China's traditional industries and not just among the technology giants. If China manages to combine this with its continued demand-based economic growth, it will become a strong growth pole for the whole South-East and East Asian region. Countries in Asia at the lower end of development would still gain from industrialization. A recent World Bank report (Hallward-Driemeier and Nayyar 2017) concludes that:

With reform priorities becoming more urgent, one key lesson is that new technologies and changing globalization patterns increase the complementarities between economy wide and targeted approaches. Yet it may be more feasible, at least in the immediate future, to meet the requirements to be competitive by targeting locations and sectors rather than attempting to reform and provide public investments throughout the whole economy and that given the growing uncertainty about the pace of technological change, horizontal policies that develop transferable skills would reduce risks in the future. (Hallward-Driemeier and Nayyar 2017: 6)

5.4 Future of work

A related issue to technological development is the future of work in Asian countries. The discussion on the future of work is often couched in terms of how automatization is affecting the high-end and profitable manufacturing industries in Asia and how robots are penetrating the industrial production processes. Yet this seems mainly to apply to China and South Korea. UNCTAD (2017) observes that robotization has been primarily employed in the automotive, electrical, and electronic industries, but that in many labour-intensive industries, such as garment making, widespread automatization is not yet suitable and that in countries with large numbers of low-skilled workers entering the labour force (as in the set of Asian countries with low growth and weak labour market regimes considered in this paper) automatization may still drive up production costs. Governments in these countries therefore need to apply judicious policies for encouraging new technologies but not rely on the effects of these solely, or massively subsidize these technologies. The experience of China of 'walking on two legs' when it developed its industrial base while maintaining agricultural output and employment, could also be applied by combining more traditional labour-intensive manufacturing and high technological activities.

5.5 Social development, education, and health

A strong improvement in literacy and secondary education is a common characteristic of Asian countries with high or medium growth rates and good labour market outcomes. This conclusion has at least two important pointers for the future development of Asian countries. Firstly, in countries which lag behind in achieving full literacy and secondary education, growth and

productive employment will remain constrained. Attaining full literacy and investment in education as part of an overall growth strategy is warranted in these countries. Secondly, countries that have progressed well in these areas need to be cognizant of the fast changes in the labour market caused by the technological development discussed above. This requires changes in school curricula and in developing systems of continuous learning and upgrading of skills. Failing in this will lead to a slowdown of growth, deteriorating labour market conditions, and increasing wage and income inequality.

5.6 Income and wealth inequalities

Income inequality in most of the Asian countries considered went up or remained stable over the period considered. Most notable is the increase in India and China where the Gini ratio increased from the 0.26–0.35 range in the 1966–70 period to the 0.45–0.55 range in the 2011–15 period, while in other countries the Gini ratio went up one range or stayed in the same range (UNU-WIDER n.d.).

Income inequality has increased for various reasons, but a strong contributing factor is the declining wage share, indicating that capital owners capture productivity gains to a larger degree than workers. This, combined with increases in wealth inequality, is leading to an increase in the income share of the top one per cent of the population. McKinsey (2017b) argues that the fast-growing artificial intelligence in China and in other fast-growing Asian countries will raise the premium placed on digital skills, while reducing demand for medium- and low-skilled workers, potentially exacerbating income inequality. It is difficult to predict whether this trend of rising inequality will continue, but there are clear signs that a continuing rise in inequality is socially and economically untenable. Few countries in the region have explicit policies to reduce income and wealth inequality. With growing inequality, the economic growth of the past is not sustainable (van der Hoeven 2011; Nayyar 2013b), and high inequality and faltering growth will lead to social unrest and to deteriorating labour market outcomes, undoing for some countries the gains achieved in this area (Nayyar 2017).

Domestic policies to face these challenges in Asian countries can be reinforced or compromised by international developments. If, as the Trade and Development Report of UNCTAD (2017) strongly advocates, a global social contract on global growth and employment creation could be achieved (van der Hoeven 2012), then economic and social developments in Asia would certainly progress faster than they would without such a global social contract. But whether such a global social contract will emerge is not at all a given in the current international political constellation.

6 Conclusions

This paper reviewed how economic development and labour markets have interacted in Asian countries since the publication of Myrdal's *Asian Drama* in 1968. It found that Myrdal was correct in rejecting the western approach to and the definition of employment by emphasizing the role of 'informal' employment, but that he underestimated the effects of the Lewisian development process. A classification of Asian countries by growth regimes and labour market regimes showed that in fast-growing countries with a good labour market regime, initial conditions played a certain role, but less than Myrdal had predicted. Myrdal's concept of cumulative causation explains development in Asian countries better: all fast-growing countries with a good labour market regime have pursued a developmental state and applied a host of interventionist policies in agriculture, industry, and macroeconomics, as well as in social policies and in the treatment of women in the labour market. Successful countries are also characterized by initial low-income inequality and

targeted redistribution of factors of production. For some countries, though, growing inequality, together with other development challenges (demographics, migration, technology, the future of work, and social policies) may, if not attended to, become a problem in the future. Furthermore, domestic policies to face these challenges may be reinforced or compromised by international developments which are difficult to predict.

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Appendix 1: Definitions of data

General

Regions and sub-regions follow the World Bank definition (see below).

If data are in italics, the data for the year indicated in the table are not available. Data from the year before or from the year thereafter have been used instead.

Definitions of data

(as formulated in World Bank, World Development Indicators and in ILO Database)

GDP per capita (constant 2010 US\$)

GDP per capita is gross domestic product divided by mid-year population. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in constant 2010 US dollars.

Least-squares growth rate: the growth rate estimated by fitting a linear regression trend line to the logarithmic annual values of the variable in the relevant period. No growth rate is calculated if more than half the observations in a period are missing. The calculated growth rate is an average rate that is representative of the available observations over the entire period. It does not necessarily match the actual growth rate between any two periods

Poverty headcount ratio at \$1.90 a day (2011 PPP) (percentage of population)

Poverty headcount ratio at \$1.90 a day is the percentage of the population living on less than \$1.90 a day at 2011 international prices. As a result of revisions in PPP exchange rates, poverty rates for individual countries cannot be compared with poverty rates reported in earlier editions.

The commonly used \$1 a day standard, measured in 1985 international prices and adjusted to local currency using purchasing power parities (PPPs), was chosen for World Development Report 1990 because it was typical of the poverty lines in low-income countries at the time. As differences in the cost of living across the world evolve, the international poverty line has to be periodically updated using new PPP price data to reflect these changes. The last change was in October 2015, when we adopted \$1.90 as the international poverty line using the 2011 PPP. Prior to that, the 2008 update set the international poverty line at \$1.25 using the 2005 PPP. Poverty measures based on international poverty lines attempt to hold the real value of the poverty line constant across countries, as is done when making comparisons over time. The \$3.20 poverty line is derived from typical national poverty lines in countries classified as Lower Middle Income. The current extreme poverty line is set at \$1.90 a day in 2011 PPP terms, which represents the mean of the poverty lines found in 15 of the poorest countries ranked by per capita consumption. The new poverty line maintains the same standard for extreme poverty—the poverty line typical of the poorest countries in the world—but updates it using the latest information on the cost of living in developing countries.

Poverty headcount ratio at \$3.20 a day (2011 PPP) (percentage of population)

Poverty headcount ratio at \$3.20 a day is the percentage of the population living on less than \$3.20 a day at 2011 international prices. As a result of revisions in PPP exchange rates, poverty rates for individual countries cannot be compared with poverty rates reported in earlier editions.

The commonly used \$1 a day standard, measured in 1985 international prices and adjusted to local currency using purchasing power parities (PPPs), was chosen for World Development Report 1990 because it was typical of the poverty lines in low-income countries at the time. As differences in the cost of living across the world evolve, the international poverty line has to be periodically updated using new PPP price data to reflect these changes. The last change was in October 2015, when we adopted \$1.90 as the international poverty line using the 2011 PPP. Prior to that, the 2008 update set the international poverty line at \$1.25 using the 2005 PPP. Poverty measures based on international poverty lines attempt to hold the real value of the poverty line constant across countries, as is done when making comparisons over time. The \$3.20 poverty line is derived from typical national poverty lines in countries classified as Lower Middle Income. The current extreme poverty line is set at \$1.90 a day in 2011 PPP terms, which represents the mean of the poverty lines found in 15 of the poorest countries ranked by per capita consumption. The new poverty line maintains the same standard for extreme poverty—the poverty line typical of the poorest countries in the world—but updates it using the latest information on the cost of living in developing countries.

NB. Poverty data from World Bank World Development Indicators have been used for country analysis. Data from the World Bank PovCalNET have been used for (sub) regional analysis.

Employment-to-population ratio, 15+, total (per cent) (Modelled ILO estimate)

Employment-to-population ratio is the proportion of a country's population that is employed. Employment is defined as persons of working age who, during a short reference period, were engaged in any activity to produce goods or provide services for pay or profit, whether at work during the reference period (i.e. who worked in a job for at least one hour) or not at work due to temporary absence from a job, or to working-time arrangements. Ages 15 and older are generally considered the working-age population.

Unemployment, total, male and female (percentage of total labour force) (modelled ILO estimate)

Unemployment refers to the share of the labour force that is without work but available for and seeking employment.

The standard definition of unemployed persons is those individuals without work, seeking work in a recent past period, and currently available for work, including people who have lost their jobs or who have voluntarily left work. Persons who were not looking for work but have arrangements for a future job are also counted as unemployed. Some unemployment is unavoidable. At any time some workers are temporarily unemployed between jobs as employers look for the right workers and workers search for better jobs. It is the labour force or the economically active portion of the population that serves as the base for this indicator, not the total population. The series is part of the ILO estimates and is harmonized to ensure comparability across countries and over time by accounting for differences in data source, scope of coverage, methodology, and other country-specific factors. The estimates are based mainly on nationally representative labour force surveys, with other sources (population censuses and nationally reported estimates) used only when no survey data are available.

Working poor

Working poverty rate (percentage of employed living below US\$1.90 PPP)

Source: ILO (n.d.).

Labour force participation rate, total and female (percentage of total population ages 15+) (modelled ILO estimate)

Labour force participation rate is the proportion of the population aged 15 and older that is economically active: all people who supply labour for the production of goods and services during a specified period.

The labour force is the supply of labour available for producing goods and services in an economy. It includes people who are currently employed and people who are unemployed but seeking work as well as first-time job-seekers. Not everyone who works is included, however. Unpaid workers, family workers, and students are often omitted, and some countries do not count members of the armed forces. Labour force size tends to vary during the year as seasonal workers enter and leave. The series is part of the ILO estimates and is harmonized to ensure comparability across countries and over time by accounting for differences in data source, scope of coverage, methodology, and other country-specific factors. The estimates are based mainly on nationally representative labour force surveys, with other sources (population censuses and nationally reported estimates) used only when no survey data are available.

Employment in agriculture (percentage of total employment)

Employment is defined as persons of working age who were engaged in any activity to produce goods or provide services for pay or profit, whether at work during the reference period or not at work due to temporary absence from a job, or to working-time arrangements. The agriculture sector consists of activities in agriculture, hunting, forestry and fishing, in accordance with division 1 (ISIC 2) or categories A–B (ISIC 3) or category A (ISIC 4).

The International Labour Organization (ILO) classifies economic activity using the International Standard Industrial Classification (ISIC) of All Economic Activities, revision 2 (1968), revision 3 (1990), and revision 4 (2008). Because this classification is based on where work is performed (industry) rather than type of work performed (occupation), all of an enterprise's employees are classified under the same industry, regardless of their trade or occupation. The categories should sum to 100 per cent. Where they do not, the differences are due to workers who are not classified by economic activity. Data on employment are drawn from a variety of sources including labour force surveys, household surveys, official estimates, and censuses. In a very few cases and only where other types of sources are not available, information is derived from insurance records and establishment surveys. Employment data include both full-time and part-time workers.

Employment in industry (percentage of total employment)

Employment is defined as persons of working age who were engaged in any activity to produce goods or provide services for pay or profit, whether at work during the reference period or not at work due to temporary absence from a job, or to working-time arrangements. The industry sector consists of mining and quarrying, manufacturing, construction, and public utilities (electricity, gas, and water), in accordance with divisions 2-5 (ISIC 2) or categories C-F (ISIC 3) or categories B-F (ISIC 4).

Wage and salaried workers, total and female (percentage of total employment)

The indicator of status in employment distinguishes between two categories of the total employed. These are: (a) wage and salaried workers (also known as employees); and (b) self-employed workers. The self-employed group is broken down into subcategories: self-employed workers with employees (employers), self-employed workers without employees (own-account workers), members of producers' cooperatives and contributing family workers (also known as unpaid family workers). Vulnerable employment refers to the sum of contributing family workers and own-account workers.

Literacy rate, adult total (percentage of people ages 15 and above)

Adult literacy rate is the percentage of people ages 15 and above who can both read and write by understanding a short simple statement about their everyday life.

Literacy statistics for most countries cover the population ages 15 and older, but some include younger ages or are confined to age ranges that tend to inflate literacy rates. The youth literacy rate for ages 15–24 reflects recent progress in education. It measures the accumulated outcomes of primary education over the previous 10 years or so by indicating the proportion of the population who have passed through the primary education system and acquired basic literacy and numeracy skills. Generally, literacy also encompasses numeracy, the ability to make simple arithmetic calculations. Data on literacy are compiled by the UNESCO Institute for Statistics based on national censuses and household surveys and, for countries without recent literacy data, using the Global Age-Specific Literacy Projection Model (GALP). For detailed information, see www.uis.unesco.org.

Educational attainment, completed at least upper secondary, population 25+, total (per cent) (cumulative)

The percentage of population ages 25 and over that attained or completed upper secondary education.

It is calculated by dividing the number of the population aged 25 and older who attained or completed upper secondary education by the total population of the same age group and multiplying by 100. The number 0 means zero or small enough that the number would round to zero. Data are collected by the UNESCO Institute for Statistics mainly from national population census, household survey, and labour force survey. All the data are mapped to the International Standard Classification of Education (ISCED) to ensure the comparability of education programmes at the international level. The current version was formally adopted by UNESCO Member States in 2011.