Trade and Human Development
The Asia-Pacific Experience

2
Chapter

Globalization is leading to a rapid expansion in international trade – and one of the engines of growth has been the Asia-Pacific region. This has helped boost economic growth and offered employment to millions of people, but the only real test of success or failure is its impact on human development. This chapter identifies the main trends in international trade and examines what it has meant for some of the region's poorest people.

Over recent decades, Asia-Pacific has been the world's fastest-growing region. As indicated in Table 2.1, during the period 1990–2003 Gross Domestic Product (GDP) grew annually on average by more than 7 per cent. As a result of population expansion, growth of per-capita GDP was somewhat slower – around 5 per cent – but still far higher than the 3 per cent in the OECD countries.

Over recent decades, Asia-Pacific has been the world's fastest-growing region

Trends in International Trade

Much of this rapid economic growth has taken place during a period of steady trade liberalization – initially transforming import quotas into tariffs, and then consolidating tariff rates into narrower ranges. At the same time, most countries in the region have reduced or removed subsidies and export taxes.

In East Asia and the Pacific, liberalization started in the 1970s; by 1990, the average import tariff in these countries was already down to 20 per cent and by 2000 had fallen to 8 per cent (Figure 2.1). In Malaysia, for example, most goods can effectively be imported duty-free. In the Pacific Island countries, however, the rates remain high (Table 2.2).

South Asia was slower to liberalize. In the early 1980s, average import tariffs were around 60 per cent, and were still around 47 per cent by the end of the decade. But during the 1990s they fell more rapidly, and by 2000 average tariffs in South Asia had fallen to 18 per cent – with the process having gone furthest in Sri Lanka. Except for India, the tariffs are lower for primary commodities than for manufactured

TABLE 2.1

Regional Growth Performance

	GDP growth (average annual %)		*GDP per capita annual growth rate (%)*
	1980-1990	*1990-2003*	*1990-2002*
East Asia & Pacific	7.90	7.60	5.4
South Asia	5.50	5.40	3.2
Europe & Central Asia	..	0.60	–0.9
Latin America & Caribbean	1.50	2.70	1.3
Middle East & North Africa	1.30	3.20	..
Sub-Saharan Africa	1.70	2.80	..

Sources: World Bank 2005; IMF 2004.

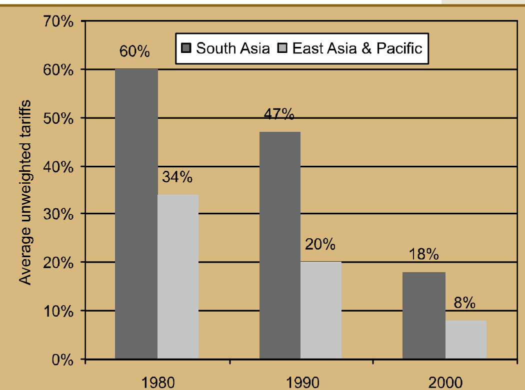

Figure 2.1: Import tariffs, 1980–2000

Source: World Bank 2005.

TABLE 2.2

Effective import duties for selected countries, 1990 and 2000 (%)

Countries	*1990*	*2000*
China	4	4
Fiji	15	11
Indonesia	4	3
Malaysia	6	1
Papua New Guinea	10	16
Philippines	17	6
Viet Nam	14	6
East Asia & Pacific	*5*	*4*
India	45	20
Nepal	10	9
Pakistan	25	11
Sri Lanka	14	4
South Asia	*34*	*14*

Note: Effective import duties = import duty revenues ÷ value of imports
Source: World Bank 2005.

The lowering of tariffs has contributed to a rapid growth in trade

goods, and within manufactures these tariffs are lower for intermediate capital goods than consumer goods.

Rapid Growth of Trade

The lowering of tariffs has contributed to a rapid growth in trade. Available evidence indicates that the share of Asia-Pacific in world trade nearly doubled over the period 1990-2003. Sub-Saharan Africa and the Middle East and North Africa's participation in international trade fell sharply in the last two decades, while Latin America saw its share fall in the 1980s but recovered in the 1990s, only to lose again in recent years. This phenomenon, which reflects the fact that both exports and imports of the Asia-Pacific region are growing at a faster rate than that of other regions of the world, showed the success of Asian countries in international trade after liberalization.[1]

During the earlier periods, export growth was faster in East Asia and the Pacific than in South Asia. Indeed, prior to and during the 1980s it was restricted mainly to the first- and second-tier newly industrializing economies (NIEs). As a result of two decades of high growth, in 2003 East Asia and the Pacific saw its total GDP rise to $2,000 billion – surpassing that of Latin America and the Caribbean. South Asia, on the other hand, which ranks next in terms of

BOX 2.1

Asia, the emerging factory of the world

The Asia-Pacific region has steadily increased its exports of manufactured goods. The region now accounts for around 30 per cent of world exports and in 10 years time could account for 50 per cent. Of this around 97 per cent comes from East Asia. Asia now accounts for 55 per cent of world trade in office and telecommunications equipment, 45 per cent in textiles, 47 per cent in clothing and 35 per cent in personal and household goods. The largest single category of exports is office and telecommunication equipment, which is also the fastest growing group of products in international trade.

Asia's Share of Global Manufactured Exports (%)

	Share in world exports	*World market growth rate*	*Asia's share*
	2004	*1990-2004*	*2004*
Iron and steel	4	6	25
Chemicals	15	10	17
Office & telecom equipment	17	11	55
Transport equipment	18	7	21
Textiles	3	4	45
Clothing	4	7	47
Other machinery	6	8	27
Personal & household goods	3	9	35
Scientific & precision Instruments	3	12	30
Others	17	9	26
Total	100	8	30

Note: Including developing economies of Asia, plus Japan, Australia and New Zealand.
Source: WTO 2005a.

GDP growth, had a much lower trade-to-GDP ratio, indicating that growth had taken place with a much lower level of engagement in trade.

But trends changed drastically in the 1990s – with signs of a growing dispersal of trade across the region. Thus, between 1990 and 2003, while East Asia and the Pacific continued to power ahead – and trade as a percentage of GDP increased from 45 to 81 per cent – the proportion of South Asia also increased, from 20 to 34 per cent.[2] These figures relate only to merchandise trade. If earnings from remittances, tourism and outsourcing are added, the differences between the subregions are smaller, and the overall increase is even more impressive. Asia is rapidly developing as the factory for the world (Box 2.1).

There has also been a rapid growth in imports. Indeed, in the period 1985 to 1995 the annual growth rate of import volume surpassed that of exports, reaching 10.5 per cent, though it slowed in the latter half of the 1990s, to 5.5 per cent. As a result, from a global perspective the region's share of imports rose from 13 to 21 per cent between 1973 and 2003 (Figure 2.2).

Merchandise exports of East Asia and the Pacific, which on average had been growing at 9 per cent annually in the 1980s, were growing by 13 per cent in the 1990s (Table 2.3). Among other factors, this was a consequence partly of earlier efforts at liberalization that had prepared the ground by exposing firms to international competition. A favourable investment climate had also encouraged substantial inflows of foreign investment. As a result, by the 1990s East Asia – with more efficient and productive industries – was poised for a takeoff in export-led growth.

China was the biggest beneficiary; it had a large and skilled labour force, available at relatively low wages. It also had special export zones that offered fiscal and other advantages, attracting many transnational companies, which during the 1990s invested over $300 billion. As a result, over the decade export growth exceeded 15 per cent, and by 2004, China had displaced Japan as Asia's biggest exporter (Table 2.3).

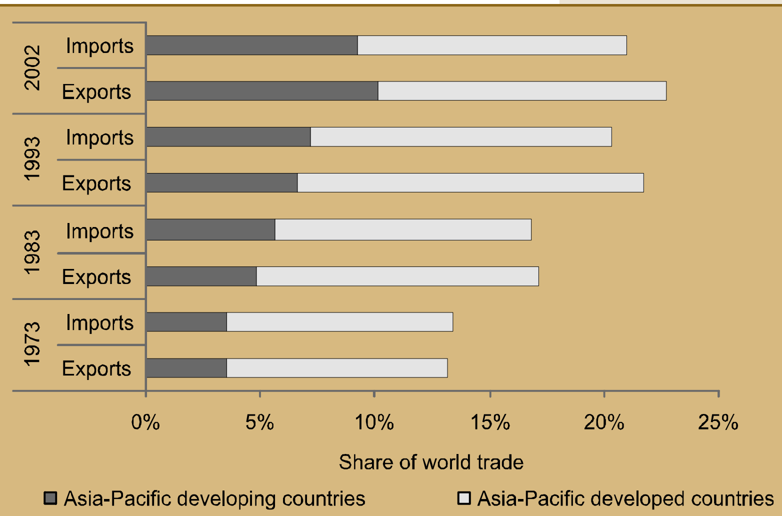

Figure 2.2: The Asia-Pacific region's share in world trade, 1973-2000 (%)

Source: WTO 2005a.

TABLE 2.3

Growth Rates of Exports, 1980s and 1990s (%)

	Merchandise		*Services*		*Total*	
	1980s	*1990s*	*1980s*	*1990s*	*1980s*	*1990s*
Cambodia	23	37	..	36	..	..
China	13	15	12	19	13	16
Fiji	1	3	9	3	5	2
Indonesia	2	10	22	9	2	9
Lao PDR	13	18	11	25	18	20
Malaysia	9	13	14	15	10	14
Mongolia	5	–0.5	8	10	..	6
Myanmar	–0.5	19	9	26	..	..
Papua New Guinea	2	7	21	4	4	7
Philippines	4	17	10	8	5	14
Samoa	–3	12	17	7	–	10
Thailand	15	12	17	9	15	11
Viet Nam	23	21	..	5	..	23
East Asia & Pacific	*9*	*14*	*14*	*11*	*10*	*13*
Bangladesh	9	15	7	8	10	14
Bhutan	18	6	28	–3.5	18	5
India	8	9	5	15	7	11
Maldives	21	5	6	14	22	9
Nepal	14	16	3	13	6	14
Pakistan	9	5	9	1	8	3
Sri Lanka	7	11	7	8	7	11
South Asia	*8*	*9*	*6*	*12*	*7*	*10*

Source: World Bank 2005.

Coming up fastest is Viet Nam, whose exports have been growing at the rate 20 per cent annually since the early 1980s

Other export success stories in East Asia include Malaysia and Thailand. Indonesia and the Philippines have also been performing more strongly of late. But coming up fastest is Viet Nam, whose exports have been growing by 20 per cent annually since the early 1980s – promising to make this East Asia's next major middle-income economy.

More surprising, perhaps, has been the performance of some of South-East Asia's Least Developed Countries (LDCs). A number of these have been keen globalizers. Starting from a low base, Cambodia, for example, has had phenomenal growth in merchandise exports – 37 per cent per annum – mostly of textiles and clothing. Lao PDR and Myanmar have also done well, with export growth rates of 18 per cent and 19 per cent.

The situation is different in South Asia. Here the growth in merchandise exports has been less impressive. India, the subregion's largest exporter, has been slower to cut tariffs and redirect production from import substitution to export markets. Some of the smaller countries, however, have done better, notably Bangladesh and Nepal in textiles and clothing, though this was largely due to the quota regime, which has now been phased out. South Asia as a whole has also done much better on service exports, with a growth rate in the 1990s higher than that for East Asia. India is the leader here, offering outsourced services, particularly in the IT sector, to many of the OECD countries.

The growth pattern has been similar for imports (Table 2.4). Rates of importing have also been rising, partly because tariff reductions have made imports cheaper relative to home-produced goods, thus displacing some import-substituting industries. But some imports are required as inputs to exports, reflecting the more integrated networks of global production, as different locations contribute different parts to the chain of value added. Exports and imports can thus be closely linked: in South Asia in particular, the rising exports, by alleviating foreign exchange constraints, have enabled import liberalization.

Nevertheless, imports have generally been growing more slowly than exports, particularly in South Asia. The main exception is China, whose buoyant demand for imports, growing at 17 per cent annually, has pushed East Asia and the Pacific's share of global imports from 4 to 7 per cent. South Asia's share, however, has remained more or less the same.

The combination of rising exports and imports means that virtually all Asian economies have become more 'open'. The degree of 'openness' of the economy, measured as the ratio of international trade (goods and services) to GDP, has risen steadily, as seen above, both, in East Asia and South Asia between 1990 and 2003.

TABLE 2.4

GROWTH RATES OF IMPORTS, 1980s AND 1990s (%)

	Merchandise		*Services*		*Total*	
	1980s	*1990s*	*1980s*	*1990s*	*1980s*	*1990s*
Cambodia	0	27	..	25	..	
China	12	16	12	28	12	17
Fiji	4	2	9	5	5	2
Indonesia	9	6	3	11	7	8
Lao PDR	8	14	–11	13	2	12
Malaysia	12	12	7	13	11	12
Mongolia	6	2	45	5	..	6
Myanmar	–1	30	4	29	..	..
Papua New Guinea	1	1	4	8	2	4
Philippines	6	12	4	18	6	12
Samoa	4	4	6	3	..	2
Thailand	16	8	16	11	16	9
Viet Nam	8	21	..	10	..	21
East Asia & Pacific	*10*	*12*	*9*	*13*	*10*	*12*
Bangladesh	4	9	4	10	3	9
Bhutan	7	11	2	15	8	13
India	5	9	8	13	5	10
Maldives	20	11	0	11	22	8
Nepal	8	10	7	3	9	7
Pakistan	4	5	9	2	4	5
Sri Lanka	3	11	6	10	4	10
South Asia	4	8	7	10	5	8

Source: World Bank 2005.

The Balance of Imports and Exports

The dynamism in international trade in the 1980s and 1990s has also brought a shift in the balance between imports and exports. The results are summarized in Figure 2.3. In East Asia and the Pacific, the balance in merchandise trade has switched from negative to positive – causing the total balance to move from minus 0.5 per cent to plus 1.9 per cent of GDP. South Asia has also made progress now and has a positive balance in services; overall, the balance is still negative, but is moving in the right direction, from minus 3.7 per cent to minus 1.9 per cent.

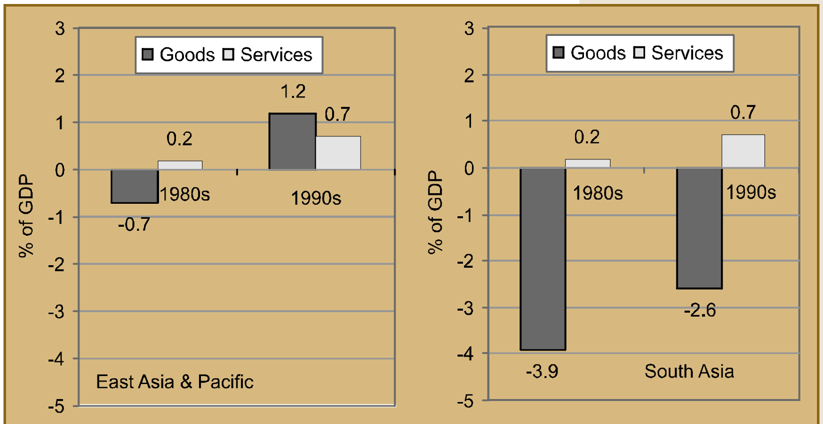

Figure 2.3: Balance of trade, East Asia and the Pacific, and South Asia, 1980s and 1990s

Source: World Bank 2005.

The experience of the Asia-Pacific countries can also be set in the context of other developing countries. UNCTAD, for example, has studied the impact of trade liberalization on the balance of trade in 16 countries across different regions over the period 1970 to 1995, and concluded that, especially in the early stages of the process, there is a tendency for the balance of payments to deteriorate.[3] Another study of 22 developing countries concluded that for a one-percentage-point reduction in duties, exports grew on an average by an extra 0.2 per cent, while imports rose between 0.2 and 0.4 per cent – and overall liberalization worsened the trade balance by 2 per cent of GDP.[4] These findings are more or less confirmed by a further UNCTAD study.[5]

By these standards, therefore, the region overall has had a more positive experience since the balance of payments position seems to have improved. East Asia has done particularly well: in the early 1990s it had a trade surplus of around 2 per cent of GDP, which by the late 1990s had risen to 4 per cent – resulting in an extraordinary buildup of foreign exchange reserves.

South Asia too has improved its position, even if the balance of trade remains negative – with two-thirds of the improvement coming from manufactured goods. Why has the result of liberalization been more muted here? The answer probably lies with domestic private investors, who have responded slowly to changing profitability signals. Despite the trade reforms, levels of private investment in manufacturing have remained low, and investors have been moving only gradually towards the exporting sectors.

Pakistan illustrates the point. During the 1990s, the export growth had actually declined – from 9 to 5 per cent. Private investment remained depressed partly because the country witnessed considerable macroeconomic instability over this period. Investors were also inhibited by the process of structural adjustment during an IMF programme that had caused growth to stall. Subsequently, however, investment recovered, especially for modernizing the textiles sector, and exports have been growing by 20 per cent.

The Changing Structure of Trade

Accompanying the increases in the volume of trade, there have also been dramatic transformations in the structure of trade

Accompanying the increases in the volume of trade, there have also been dramatic transformations in the structure of trade. This has occurred at three levels: first, within both exports and imports, there have been shifts between merchandise and services; second, *Within manufactured exports, there has also been a significant move up the technological ladder towards sophisticated products*

within merchandise exports there has been a shift between primary products and manufactures; and third, within manufacturing, there have been changes in the balance between labour- and capital-intensive production.

Shifts in the balances between exports of goods and exports of services have been most noticeable in South Asia, particularly following India's boom in outsourced IT services. As a result, 26 per cent of South Asia's exports are now of services. In East Asia, however, the movement has been in the other direction as merchandise exports have risen from 86 to 88 per cent of exports (Figure 2.4).

Figure 2.4: Composition of merchandise exports and imports

Source: World Bank 2005.

TABLE 2.5
Composition of Merchandise Exports and Imports

	Exports (%)			*Imports (%)*		
	1980	*1990*	*2000*	*1980*	*1990*	*2000*
East Asia & Pacific						
Agriculture	...	21	12	...	11	9
Fuel	...	14	8	...	6	10
Manufactures	...	59	80	...	77	76
Others	...	6	0	...	6	5
Total		100	100		100	100
South Asia						
Agriculture	38	21	17	14	13	10
Fuel	3	2	4	35	23	35
Manufactures	54	71	78	46	54	48
Others	5	6	1	5	10	7
Total	100	100	100	100	100	100

Source: World Bank 2005.

Within merchandise exports, there have also been major structural changes, most notably a shift in exports towards manufactured goods, which in East Asia and South Asia by 2000 accounted for 80 and 78 per cent of merchandise exports respectively (Table 2.5). Two other notable features concern agricultural goods and oil. Not only have agricultural exports been declining, a number of countries have also become large-scale food importers. China, for example, was a net agricultural exporter of $2 billion worth in 1990. By 2003, this had been transformed into net imports worth $14 billion – a rising demand that has major implications for future world food prices (Box 2.2).

Regarding fuels, there has been a decline in exports in East Asia and the Pacific, though countries like Malaysia have emerged as net exporters. Indonesia, which is the region's major OPEC member, has had decline in exportable surpluses of petroleum and oil products. South Asia is more dependent on oil imports than East Asia and will, therefore, suffer more from higher oil prices (Box 2.3).

Within manufactured exports, there has also been a significant move up the technological ladder towards sophisticated products, though this is more evident in East Asia and the Pacific than in South Asia (Figure 2.5). In East Asia and the Pacific between 1990 and 2000, the proportion of exports based on natural resources and labour-intensive, low-tech goods fell from 53 to 37 per cent, while the proportion based on high-tech goods rose from 24 to 41 per cent – much of this from the higher-middle-income countries like Malaysia and Thailand. These countries are increasing their output of products like electronics, office machines and telecommunications equipment – which are also responsible for the fastest growth in world trade. In South Asia, on the other hand, around 85 per cent of merchandise exports are still of resource-based products or labour-intensive goods.

Growth or Trade – Which Comes First?

The Asia-Pacific region has thus experienced significant economic growth and a rapid rise in exports, especially in East Asia and to a lesser extent in South Asia. But have the exports have triggered this growth, or is it the other way round: are rising exports an outcome of economic growth? This is a question on which there has been extensive discussion.[6]

One view is that the main driving force is growth: as output rise, there is a surplus that can be exported. If, for example, a small developing country has a good harvest that produces a food surplus, then it can sell in international markets – and do so at the prevailing world price since the quantities will be relatively small.

The alternative view is that growth needs exports. A country that has a small domestic market can only achieve sustained growth by selling into larger world markets. This view is supported by empirical research.[7] This is illustrated in Figure 2.6, which for a sample of the larger low-to-middle income economies of Asia and the Pacific plots GDP growth over the 1980s and 1990s against export growth. This suggests a largely positive relationship. However, this scatter diagram has some outliers: China, for example, in the 1980s had only a modest growth in exports but still managed to achieve rapid economic growth. Viet Nam, on the other hand, had a rapid growth in exports but only a modest economic growth.

It is also possible to group countries according to their performance in the 1990s in relation to the 1980s:

BOX 2.2

From Food Surplus to Food Deficit

Four of the ten larger low to middle-income economies in the region now have net food deficits. They are Bangladesh, China, Pakistan and the Philippines. Of these, China had a surplus till as recently as 2003 and the Philippines up to 1994. The surplus has remained constant in India and also in Sri Lanka, where it is very small. In Indonesia, Malaysia and Thailand, the surpluses have grown.

Net Food Surpluses and Deficits in Selected Countries $ Billions

Country	*1990*	*2000*
Bangladesh	–0.4	–1.2
China	3.2	–0.3
India	3	3
Indonesia	1.7	4.3
Malaysia	1.4	4.3
Pakistan	–0.8	–0.5
Philippines	0.2	–0.6
Sri Lanka	0.1	0.1
Thailand	4.9	7.6
Viet Nam	–	3

Source: World Bank 2005.

BOX 2.3

The Oil Shock

Although Indonesia and Malaysia, as net exporters, have benefited from the rise in oil prices, many others are suffering from an 'oil shock'. The extent of the shock can be measured by considering the rise in the import bill expressed as a percentage of the country's liquid foreign exchange reserves.

Assuming, say, a 50 per cent rise in crude oil prices between 2004 and 2005, then among the larger countries the most vulnerable would be Pakistan, the Philippines, Sri Lanka and Viet Nam, where the shock would exceed 20 per cent. Pakistan, for example, which has foreign exchange reserves of just under $10 billion, faces extra costs of $2 billion. China too faces a rapidly rising import bill – an increase of $24 billion – but the shock is smaller because of its extraordinarily high level of foreign exchange reserves.

Oil shock of the magnitudes sustained by Pakistan, the Philippines, Sri Lanka and Viet Nam will not just be felt in one year; they will persist for some time, depending on structural rigidities and other factors.

Oil Shock = 20%	Pakistan, Philippines, Sri Lanka, Viet Nam
Oil Shock = 10–20%	Bangladesh, India, Nepal, Thailand
Oil Shock < 10%	China

Sources: UNCTAD 2005a; OPEC 2005.

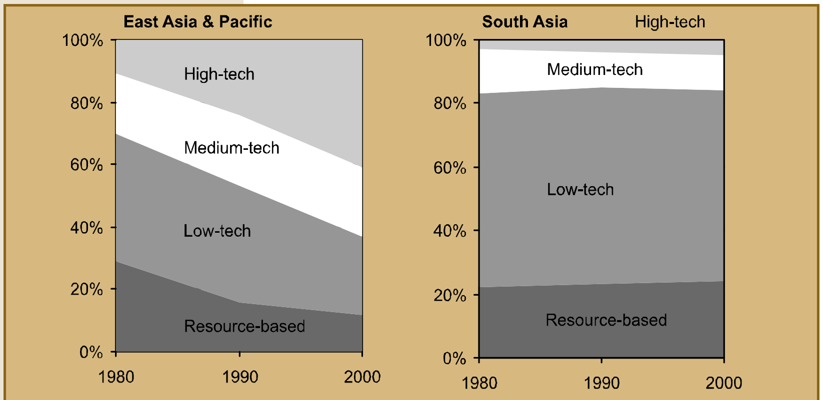

Figure 2.5: Composition of manufactured exports, 1980-2000

Source: UNIDO 2004.

1. *Acceleration in export and economic growth* – China, Malaysia, Philippines, Viet Nam, Bangladesh, Sri Lanka
2. *Acceleration in export growth but deceleration in economic growth* – India and Indonesia
3. *Deceleration in both export and economic growth* – Thailand and Pakistan

Countries falling into the second category can be considered special cases since they do not follow the expected pattern. India has several factors that would have contributed to this result. First, it needs to be borne in mind that the export sector is only a small part of India's economy and will thus have less of an impact. Second, overall growth was slowed due to a poor performance in agriculture.[8] A third contributing factor could have been a surge in imports following liberalization that undermined import substitution industries. In Indonesia, on the other hand, the principal factor seems to have been the East Asian financial crisis, which hit the country particularly hard, causing the GDP to plummet despite a rapid growth in exports. For the region as a whole, it is also interesting to note that no country combined slower export growth with faster economic growth.

Thus, there does seem to be a broad relationship between export growth and economic growth – and the relationship gets stronger when there is a high degree of export orientation. However, it can also be affected by domestic factors of demand and supply, and the outcome can be ambiguous if faster export growth is offset by faster import growth.

In East Asia and the Pacific, most of the impetus for export-led growth seems to have come less from agriculture and more from the non-agricultural sector, especially from manufacturing, which was growing annually by almost 11 per cent in the 1990s (Table 2.6). This was the outcome of policy decisions in these countries to move away from agriculture, first

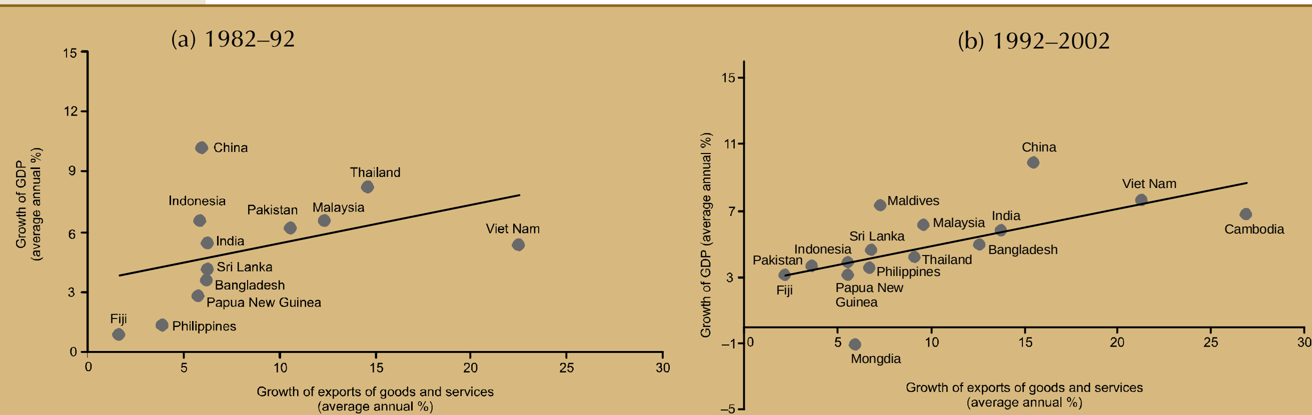

Figure 2.6: Growth of exports of goods and services and GDP in Asia and Pacific countries

Source: Palanivel 2006.

to labour-intensive manufactured goods and later to high-tech products. The outcome was a faster growth rate.

As a result, the agricultural sector has received little investment and is languishing somewhat. Nevertheless, the structural transformation of the East Asian economies has not yet been completed, and agriculture still accounts for almost half the labour force in the subregion – compared to 5 per cent in the developed countries. If the situation of the rural population is to improve, many more of them will need to find work in the more modern sectors of the economy, and more attention would have to be given to the agriculture sector.

In South Asia, the impact of liberalization was more ambiguous. Indeed, economic growth actually faltered somewhat between the 1980s and 1990s. Table 2.6 shows that even manufacturing slowed down, partly as a result of import penetration in industries such as leather and footwear, wood products, industrial chemicals, rubber products, plastic products, paper and paper products, glass products, fabricated metal products, and professional and scientific equipment. Agriculture has also suffered over this period, growing at less than 3 per cent; some of this would have been due to liberalization and the opening up of the agricultural market, which caused agricultural imports to increase by almost 150 per cent.

TABLE 2.6
Growth rates by sector and GDP growth rates

	1980s	*1990s*
East Asia & Pacific		
Agriculture	5.1	3.3
Industry	8.0	11.0
(Manufacturing)	(8.6)	(10.9)
Services	8.9	7.1
GDP	7.4	8.2
South Asia		
Agriculture	3.5	2.9
Industry	7.0	5.6
(Manufacturing)	(7.4)	(5.9)
Services	6.2	6.8
GDP	5.7	5.2

Source: World Bank 2005.

The Energy Crunch

All countries have to rely on trade to be able to finance imports – and for most of them, and especially the poorest, the largest bills are for oil. World oil prices have been rising steeply: in 2002 Brent spot prices averaged $25 a barrel; in 2003 they rose to $29; in 2004, $43; and in mid-2006 they approached the $75 mark. What does this surge imply? The pessimistic and more alarmist interpretation is that the world is close to the point of ‘peak oil’: the maximum production before output declines as the resource is depleted. A more optimistic view is that, after adjusting the nominal prices for changes in the prices of other commodities, oil prices are still relatively low. In 1980, for example, Arabian Light was $36 a barrel, which in inflation-adjusted 2005 amounts to $84 per barrel – and thus in real terms higher than recent prices.

But even if today’s real price is short of its previous peak, the rising price has serious implications. Overall, the Asia-Pacific region remains a large net importer of oil, and rapid growth, especially in the manufacturing sector, has led to a continually rising demand. As a result, in spite of higher prices many countries of the region since 2004 have substantially increased fuel imports. Only a few of the faster-growing countries, such as Malaysia, the Philippines and Singapore, spent less on fuel in the latter half of the 1990s.

Unlike during previous oil shocks, many countries have clearly been able to finance rising oil imports without much difficulty. China, for example, can keep sucking in oil because of the consistently high increase in its export earnings; India manages because of its large information technology-related revenues; and some other developing countries are able to stay afloat with

The structural transformation of the East Asian economies has not yet been completed, and agriculture still accounts for almost half the labour force the help of remittances from migrant workers. The better-off countries also have access to liquidity in the form of debt, portfolio investment or foreign direct investment, which has helped cushion the effects of rising oil prices. As a result, the demand for oil is still strong and oil prices have remained buoyant.

But the poorest countries, especially the LDCs, without access to foreign credits are facing an oil shock and can only import oil by selling more of their own goods in global markets (Box 2.3). This makes it even more urgent to find ways of ensuring that such trade engagement takes place in a way that also promotes human development.

Greater engagement with international markets was accompanied by a rise in income inequality

The Implications for Human Development

What effect has the rapid increase in trade had on human development? This is difficult to assess across such a huge region, which accounts for nearly 60 per cent of the world's population. It is also very diverse, with some dramatic contrasts in wealth: per-capita income in the richest country is more than 30 times that in the poorest. Within countries, too, there are striking contrasts between the richest and the poorest, both in income and in quality of life. However, there do seem to be some trends common across a number of countries.

Rising Inequality

One of the most general conclusions is that, for most developing countries in the region during the 1990s, a greater engagement with international markets was accompanied by a rise in income inequality. This is clear from trends in the conventional inequality measure, the Gini coefficient, which ranges from zero (absolute equality) to 1 (one person gets everything). The faster-growing economies, like China, have seen a large increase in inequality – though some countries, such as the Republic of Korea and Thailand, experienced a fall (Table 2.7).

TABLE 2.7
Trends in the Gini coefficient, 1960s to 1990s

	1960s average	1970s average	1980s average	Early 1990s	Late 1990s
North-East Asia					
China	–	–	0.315 (i)	0.335 (i)	0.403 (i)
Republic of Korea	0.323 (i)	0.361 (i)	0.359 (i)	0.294 (i)	0.300 (i)
South-East Asia					
Indonesia	–	–	0.317 (c)	0.317 (c)	0.317 (c)
Lao PDR	–	–	–	0.296 (c)	0.365 (c)
Malaysia	–	0.515 (i)	0.469 (i)	0.429 (i)	0.443 (i)
Philippines	0.505 (i)	0.494 (i)	0.409 (i)	0.438 (i)	0.462 (i)
Thailand	0.420 (i)	0.417 (i)	0.460 (i)	0.488 (i)	0.432 (i)
Viet Nam	–	–	–	0.357 (c)	0.361 (c)
South and South-West Asia					
Bangladesh	0.358 (i)	0.375 (i)	0.260 (c)	0.266 (c)	0.315 (c)
India	0.305 (c)	0.297 (c)	0.293 (c)	0.315 (c)	0.378 (c)
Pakistan	0.359 (i)	0.346 (i)	0.350 (i)	0.348 (i)	0.410 (i)
Sri Lanka	0.470 (i)	0.388 (i)	0.447 (i)	0.301 (c)	0.344 (c)

Note: 'i' = income data; 'c' = consumption data. Gini index series are comparable only when income and consumption data are considered separately.
Sources: Adapted from ADB 2001; World Bank 2002a.

Poverty

Despite increases in inequality, there has nevertheless been a substantial decline in poverty. Between 1990 and 2001, the number of people living on less than $1 a day dropped by nearly a quarter of a billion. This is usually attributed chiefly to sustained growth in China and the acceleration of growth in India. But progress has actually been quite widespread across the subregions: over the same period, the proportion of people living on less than $1 a day declined from 41 to 31 per cent in South Asia, and from 30 to 15 per cent in East Asia and the Pacific.[9]

But probably the most rapid changes have been in North-East Asia, where export-led growth was accompanied by a substantial reduction in poverty and general improvements in the quality of life. Between 1990 and 2001, the proportion of people living in extreme poverty, measured by the headcount ratio, fell from 33 to 17 per cent. East Asia, therefore, stands out as a successful case of high growth, high trade and high human development. Income poverty also declined, if less dramatically, in South-East Asia – though one of the best performers was Malaysia (Box 2.4).

The situation has been different in South Asia. During this period, trade ratios were relatively low and average growth rates, even if creditable, were also lower. Income poverty did come down, though more slowly, and remains quite high (Figure 2.7). This points up the significance of growth for poverty reduction: growth may not be sufficient on its own to reduce poverty, though it does appear to be a prerequisite.

But there is a caveat: the contrasts between the two subregions may be overdrawn. In particular, it should be emphasized that economic growth and human development have a two-way relationship. So while South Asia and

Despite increases in trade, many LDCs have had less success in reducing poverty

BOX 2.4

Trade and Growth in Malaysia's Spectacular Poverty Decline

Malaysia is an example where trade liberalization, accompanied by pro-poor domestic policies, led to a remarkable reduction in poverty. Malaysia adopted two broad interrelated strategies for eradicating poverty. The first focused on economic growth through the pursuit of open trade policies. The second highlighted the role of public policy in promoting pro-poor growth strategies, providing the social and physical infrastructure required for a growing economy, and indirectly assisting specific target groups among whom poverty rates were highest.

Malaysia progressively liberalized its trade and has achieved sustained, albeit variable, economic growth. On an average, over the period of 1970–2005 the Malaysian economy grew in real terms in excess of 6 per cent a year. This has changed the country from a raw material-based to a manufacturing-based one: the most dynamic sector is electronics, and Malaysia is now one of the world's major exporters of semi-conductors and electronic components.

Changing world demand and falling prices led to the re-channelling of resources within the agriculture sector from rubber, which had lost its comparative advantage, to palm oil, for which there was a rising demand. Modern management of farms through land development schemes assisted in the modernization and transformation of agriculture. With rising rural incomes, the incidence of rural poverty declined substantially.

The international demand for labour-intensive products transformed Malaysia's manufacturing sector through the growth of export-oriented industries. FDI, attracted by Malaysia's infrastructure, human resources and government incentives, contributed markedly to the development of export-oriented industries, electronics being the most important. The exchange rate was stable, and the currency was not overvalued. Export-oriented industries – with their correlates of rising modern-sector employment opportunities, especially for women, and raised incomes – contributed significantly to urban poverty reduction.

In 1970 about half of households in multi-ethnic Malaysia were poor. By 1990, however, the proportion had dropped to 17 per cent and by 2002 to just 5 per cent. Further, unlike elsewhere, poverty reduction was accompanied by a reduction in income inequality during the period 1970–2002 – the Gini coefficient fell from 0.52 in 1976 to 0.46 in 2002.

The Malaysian experience suggests long-run economic gains for all from trade liberalization, although there are short-term winners and losers and the poor can be vulnerable. So domestic policies need to be in place to help the vulnerable deal with the transition costs of adjustment and to benefit from the new, open trade regime. Trade liberalization in Malaysia was, therefore, accompanied by pragmatic social policies and macro-economic management, as well as investments in human capital, especially health, education and women's empowerment.

Source: UNDP Malaysia 2006 (forthcoming).

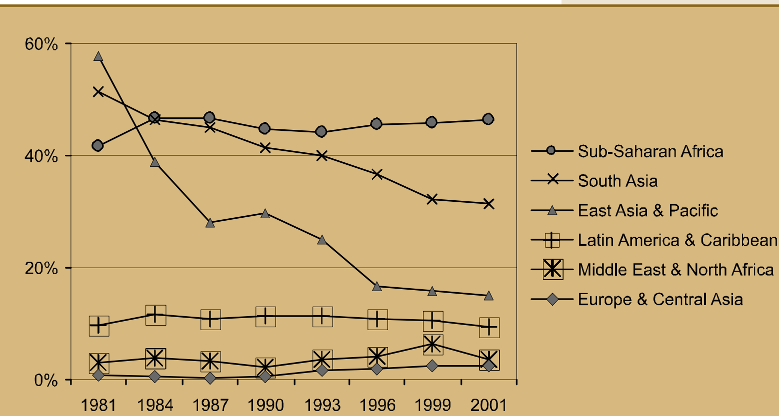

Figure 2.7: Income poverty, 1981–2001, % of people living on less than $1 per day

Source: World Bank 2005.

While South Asia and East Asia chose different paths, they may reach the same destination

East Asia chose different paths, they may reach the same destination.

South Asia, especially before the 1990s and starting from much lower levels of human development, and pursued strategies based more on protecting the domestic market with tariffs and quantitative restrictions. This produced slower growth. It also resulted in slower advances in human development, but these nevertheless helped ensure that modest liberalization in the 1980s and accelerated integration in the 1990s were accompanied by a higher trend rate of economic growth.

East Asia, on the other hand, started with a considerably more favourable level of human development, and in particular an educated population, and was able to capitalize on this to achieve export-led economic growth.

Both experiences underscore the fact that favourable human development conditions – education, long and healthy lives, equal access to opportunities, and a strong and pro-development public sector, including good governance – provide the preconditions not just for economic growth *per se* but also influence its pattern and quality, which can further contribute to enhancing the quality of life and widening people's choices.

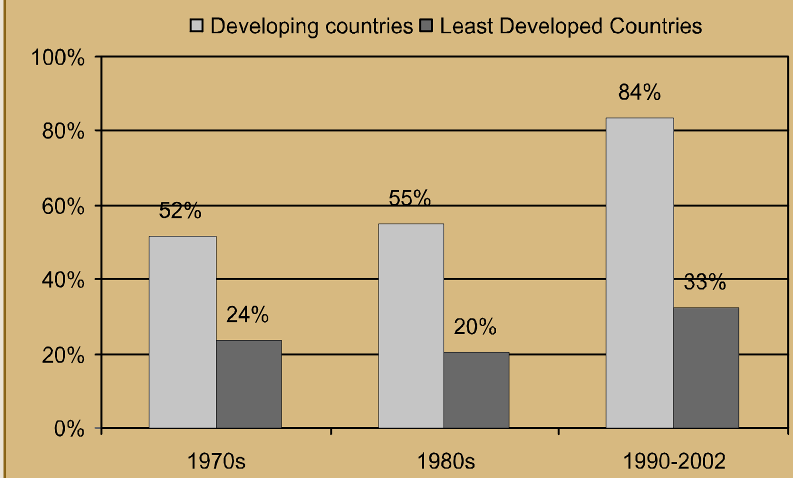

Figure 2.8: LDCs and developing countries, trade as % of GDP, 1970–2002

Source: World Bank 2005.

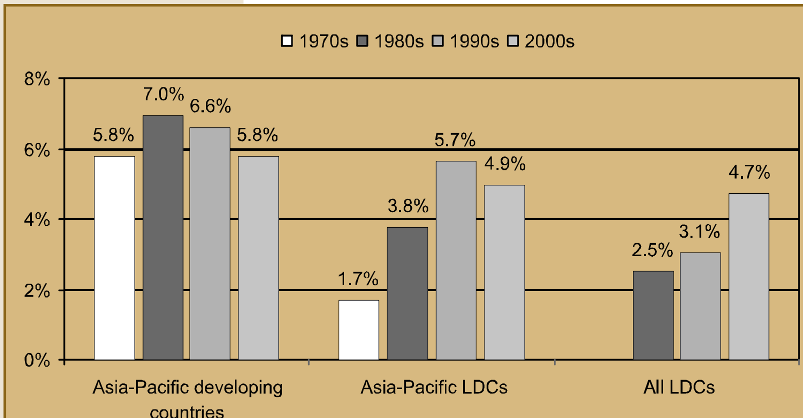

Figure 2.9: Annual average growth rates, developing countries and LDCs, 1970–2000

Source: World Bank 2005.

The Experience of the Least Developed Countries

Advances in the Least Developed Countries (LDCs), however, have been slower. Despite increases in trade, many LDCs have had less success in reducing poverty. Like the developing countries of the region, they have increased trade as a proportion of GDP – from 20 per cent in the 1980s to 33 per cent in 1990–2002 (Figure 2.8). Moreover, this expansion of trade has enabled the LDCs of Asia-Pacific to achieve faster growth than the LDCs of other regions (Figure 2.9) and to narrow the human development gap with the developing countries of the region – though the gap is still significant. Nevertheless, poverty rates in many of the LDCs have not declined very rapidly and while in developing countries of the region the proportion of the population living below the $1-per-day poverty line is 22 per cent, for the LDCs it is 38 per cent.

Food Insecurity

Despite reductions in income poverty, the region continues to suffer from extreme deprivation.

This is evident, for example, in food consumption. Liberalizing agricultural markets may have helped reduce the price of food – particularly food produced with the backing of subsidies in the US and the EU. But this does not seem to have led to any consistent improvement in food security. More countries now have food deficits (Box 2.2), and Asia still has more hungry people than in any other region of the world – over 510 million in 2002.[10] And in recent years the number has increased, so that about one in every six persons was undernourished.[11] This was because progress slowed in China, Thailand and Viet Nam, and in some countries the advances of the first half of the 1990s were actually reversed – as in India, Indonesia and Pakistan.[12]

Food deprivation has hampered efforts to deal with malnutrition. Household food insecurity, combined with the lack of adequate feeding practices and the debilitating effects of infectious disease, leaves million of children undernourished – and at greater risk of early death. The proportion of children under five who are underweight may have been reduced: between 1990 and 2003, in South Asia the proportion declined from 53 to 47 per cent; in South-East Asia from 38 to 29 per cent, and in North-East Asia from 19 to 10 per cent.[13] Nevertheless, this progress has been far too slow, and in 2003 in South-East Asia malnutrition was still sapping the strength of close to one-third of children, and in South Asia of nearly half.

Health

Trade might be expected to improve health by increasing employment and income. There is now the threat that due to the TRIPS agreement, the price of drugs might increase, though this has yet to take effect. Generally, the period of trade-led growth has been accompanied by improvements in health, though this seem to have slowed in recent years. The most rapid progress has been in South-East Asia, where between 1990 and 2003 the under-five mortality rate per 1,000 live births fell from 78 to 46. In North-East Asia it fell from 48 to 37. There has also been progress in the South Asia from 126 to 90, but the rate remains high. A number of subregions also have high rates of maternal mortality: in 2000 these stood at 540 per 100,000 live births in South Asia and 210 in South-East Asia, though a creditable 55 in North-East Asia.[14]

Education

Trade might have been expected to raise education standards by giving people greater incentives to improve their skills. But progress has also been inadequate. The greatest problems are again in South Asia, where one child in five fails to enrol in primary school. Since 1990-91, when the net enrolment ratio in primary education was 73 per cent, the ratio has increased, but by 2001-02 had still only reached 79 per cent. Moreover, a high proportion of children who enrol do not complete the full course of primary education. Enrolment rates tend to be higher in the other subregions, but even here they may be slipping: in South-East Asia over the same period, enrolment declined from 92 to 91 per cent and in North-East Asia from 97 to 95 per cent.[15] Children in these two subregions also do better for completion: in South-East Asia 90 per cent of those enrolled reach the final grade of primary school, and in North-East Asia all children reportedly complete their primary schooling.[16]

In 2003 in South-East Asia malnutrition was still sapping the strength of close to one-third of children, and in South Asia of nearly half

As in most other areas, the shortfall is far greater for girls than boys. In South Asia, between 1990-91 and 2001-02 the number of girls enrolled in primary school per 100 boys rose from 76 to 85, but still falls far short of parity. For South-East and North-East Asia, however, the ratios are more impressive – increasing over the same period from 96 to 97 and from 93 to 100 respectively. At the secondary-school level, patterns of enrolment

Women are still often considered as second-class citizens when it comes to the management and organization of work

were similar: in 2001-02 for the three sub-regions, the numbers of girls per 100 boys were 79, 98 and 93 respectively.[17]

Some of the more direct impacts of trade on education can be seen, however, in greater specialization – as, for example, in India, where the demand for outsourcing personnel has led to a mushrooming growth of IT training institutions.

Gender

Gender differences that start at school tend to persist and sometimes even widen as children move to adulthood. This is evident, for example, in women's share in non-agricultural wage employment which, between 1990 and 2003, increased by only a few percentage points: from 13 to18 per cent in South Asia, 37 to 39 per cent in South-East Asia and 38 to 40 per cent in North-East Asia. The fastest increase, in South Asia, is attributable to rising exports of textiles and clothing.

Earlier, East Asia's export drive in the 1960s and 1970s also relied on the mobilization of female workers. By being able to earn their own income independent of their families, many women thus obtained greater personal freedom – though they often had limited opportunities to participate in decisions on their working conditions and are still often considered as second-class citizens when it comes to the management and organization of work (Box 2.5). Moreover, for women the world over going out of the home to work adds to their double burden and exposes them to the risk of sexual harassment at the workplace.

The Socio-Political Impact

Besides boosting household incomes, trade can also promote other aspects of human development. In Western countries, for example, the potential for trade stimulated factory-based industrialization and created a new working

BOX 2.5

Including Women in Globalization

A special contribution from Ela R. Bhatt, Founder, Self Employed Women's Association (SEWA), Ahmedabad, India

Why are poor women not more fully included in the globalization process, which is encompassing everyone and everywhere? One reason is that poor women are highly dispersed. They are spread across rural and urban areas, across sectors of economy, across levels of access to formal financial services, and across the range of industrial processes.

Another reason is that they do not know their markets directly. For example, those who have their own small ready-made garment businesses do not know who buys the garments they produce, what price their products fetch in global markets or how long this design or fabric will be in demand. As a result, their understanding of global markets is filtered through middlemen.

The first thing that women need to do is to organize – to associate themselves with people in similar occupations and with similar skills. This will enable them to access credit, information, market links and emerging technologies, taking advantage of one or more of these in combination – in packages that are suitable and affordable and that they can select and manage for themselves.

Even these will only allow women to catch up, but not necessarily to move forward. Poor women, therefore, need reforms that provide a possibility for partnerships with governments, and the financial institutions:

1. Put poor women in the centre of any economic reform, especially in the key five areas: basic services, banking, labour, insurance, and trade.
2. Recognise 'work' as central to any economic reform that addresses poverty. For the poor, work is absolutely central to their lives.
3. Invest adequately in those poor women's initiatives that have the potential to grow.
4. Develop and spread social security systems that perform in a holistic way for the poor and women.
5. Build the capacity of poor self-employed women to enter global markets by building new marketable skills and knowledge, individually as well as institutionally.

These changes are tough and demanding, but possible. They have worked for SEWA to a significant extent and for many more institutions across India. Some of these institutions work at loggerheads with the local government, while others work with them, but they all share a common concern for the poor and a commitment to foster change. Poor people have demonstrated the change that they have brought by their collective efforts.

class. This new workforce had a significant social and political impact. Workers may have been dissociated from the ownership of the instruments of production, but they were nevertheless free to choose their occupation and to earn an income independent of the patronage of the elite. Trade can thus be seen to have facilitated the emergence of an independent electorate and to have enriched democracy.[18]

The Employment Channel

The main channel for all these effects of trade on human development is through employment. Ideally, more trade should mean more jobs and a decline in unemployment. But, often there has been no improvement: between 1993 and 2003, a period of rapid expansion in trade, unemployment rates for global regions fell only in the industrialized economies; in all other regions they remained largely unchanged (Figure 2.10). Young women and men aged from 15 to 24 bore the brunt of rising unemployment. While youth made up one-fifth of Asia-Pacific's labour force in 2004, they constituted nearly half of the region's total jobless population. Youth unemployment stood at a particularly high 17 per cent in South-East Asia. Women's unemployment rates have increased in recent years and are higher than men's in most countries of the region.

As the labour force grew rapidly in the 1990s, by 24 per cent in South Asia and 15.4 per cent in East Asia and the Pacific, unemployment pressures rose. Now, those who are in the labour market are finding jobs scarcer. This is evident from unemployment rates in South-East Asia, which between 1993 and 2003 increased from 3.9 to 6.3 per cent. Indeed, since 1990 some of the most trade-intensive countries, such as China and Singapore, have seen unemployment rates increase substantially.

Asian countries created jobs quite rapidly in the 1980s – 337 million in total. However, they created far fewer, 176 million, in the 1990s. Why was employment generation virtually halved? Most of this shortfall reflects developments in East Asia. During the 1980s, the subregion added 273 million new jobs – 70 per cent of the regional total. In the 1990s, however, despite accelerating economic growth, countries of the subregion added only 104 million jobs and, as a result, the unemployment rate rose again. In South Asia, on the other hand, there was a small increase: the subregion created 64 million jobs in the 1980s and then, despite some decline in the overall rate of economic growth, added 72 million in the 1990s.

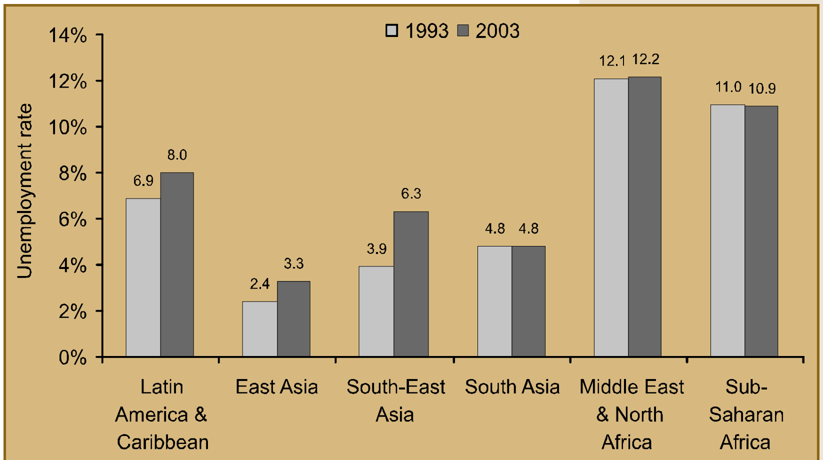

Figure 2.10: Regional unemployment rates, 1993 and 2003

Source: ILO 2005a.

Asian countries created jobs quite rapidly in the 1980s far fewer in the 1990s

To look more closely at what is happening, it is useful to consider the 'elasticity' of employment with respect to growth, which is obtained by dividing the growth rate in employment by the growth rate in output.

The region's experience is summarized in Table 2.8. In East Asia, there was a precipitous decline in employment creation: between the 1980s and the 1990s, despite an acceleration in output growth, employment growth fell from 4.2 to 1.2 per cent – a fall of 3 percentage points. This is reflected in a drop in employment elasticity from 0.56 to 0.15.

These data can then be used to 'decompose'

TABLE 2.8

Growth of Employment and Output, and Employment Elasticity by Sector

	1980s			1990s		
	Employment growth	*Output growth*	*Employment elasticity*	*Employment growth*	*Output growth*	*Employment elasticity*
East Asia & Pacific	*4.2*	*7.4*	*0.56*	*1.2*	*8.2*	*0.15*
Agriculture	1.8	5.1	0.35	–0.2	3.3	–0.05
Industry	4.7	8.0	0.59	0.8	11.0	0.07
Services	5.2	8.9	0.59	3.5	7.1	0.49
South Asia	*1.6*	*5.7*	*0.28*	*1.6*	*5.2*	*0.31*
Agriculture	1.3	3.5	0.37	0.6	2.9	0.21
Industry	2.3	7	0.33	2.5	5.6	0.45
Services	2.3	6.2	0.37	3.6	6.8	0.52

Source: Palanivel 2006.

the growth in employment into two parts: first, the part that is caused by an increase or decrease in economic activity, the 'output effect'; second, the part that reflects the capacity of that output to generate employment, the 'elasticity effect'. The results of this decomposition are indicated in Table 2.9. Thus, for East Asia and the Pacific, the 3.0-percentage-point fall in employment growth between the 1980s and 1990s was composed of a 0.1-percentage-point increase due to the output effect and a 3.1-percentage-point decline due to the elasticity effect.

TABLE 2.9

Factors Contributing to Changes in Rate of Employment Growth

	Change in rate of growth of employment (1)	*Output effect (2)*	*Elasticity effect (3)*
East Asia & Pacific	–3.0	0.1	–3.1
Agriculture	–2.0	0.1	–2.1
Industry	–3.9	0.2	–4.1
Services	–1.7	–0.8	–0.9
South Asia	0.0	–0.2	0.2
Agriculture	–0.7	–0.1	–0.6
Industry	0.2	–0.6	0.8
Services	1.3	0.4	0.9

Note: Column 1 is the sum of columns 2 and 3
Source: Palanivel 2006.

Most of this change in the subregion is caused by what was happening in the industrial sector – and particularly in manufacturing, for although manufacturing output increased by almost 180 per cent in the 1990s, the associated employment increased by only 3 per cent, what has been called 'jobless growth'. As Table 2.8 shows, employment elasticity in industry fell steeply – from 0.59 to 0.07.

Employment generation in East Asia was also weak in the services sector. In this case, however, this was due to both a deceleration in output growth and due to deterioration in the employment elasticity: the fall in the rate of growth of employment from over 5 to around 3.5 per cent is shared equally by the two effects.

The worst outcome, however, was in agriculture. Here too there was both a deceleration in output growth and a deterioration in employment elasticity. Indeed, in agriculture employment fell even in absolute terms.

The Changing Composition of Manufacturing

Overall, therefore, most of the inadequate employment growth in East Asia has been due to the elasticity effect. What caused this? And in particular, why has manufacturing failed to provide sufficient jobs to absorb people moving from the agricultural sector? The answer lies in the manufacturing sector's changing composition. First, manufacturing has been moving from low-tech, labour-intensive industries such as garments to high-tech and more capital-intensive ones such as electronics. Table 2.10 indicates this process for China and Malaysia, both of which saw a sharp decline in labour-intensive production. Second, even within more labour-intensive manufacturing, companies have continued to invest in labour-saving equipment: one survey of 28 industries in Malaysia, for example, found a significant decline in labour intensity in 13 industries.

It should, of course, be borne in mind that the manufacturing sector also triggers employment indirectly, as manufacturing enterprises provide business for the wholesale and retail trade, transport and communications, and banking and insurance. Incomes generated in the manufacturing sector also stimulate consumer demands for services.

Table 2.11 shows that while there has been significant growth in the service sector, employment has not kept pace. In East Asia and the Pacific, the employment elasticity of growth has in fact been falling for all sub-sectors except finance and insurance. In South Asia, on the other hand, the employment-generating capacity of all sub-sectors has expanded.

This pattern of jobless growth is evident in virtually all the economies in East Asia (Table 2.12). China, for example, whose buoyant exports have contributed to an exceptionally high rate of economic growth – approaching 10 per cent – had employment growth of only 1.1 per cent in the 1990s.

The employment situation is different in South Asia. Here, despite a deceleration in the rate of economic growth, employment growth remained fairly constant, albeit at a relatively modest rate of about 1.6 per cent – implying an increase in the employment elasticity, including that for industry (Table 2.8). This is because in South Asia there has been relatively little structural change: during the 1990s traditional labour-intensive and natural-resource-based industries maintained and even increased their shares in value added. In India, for example, the proportion of manufacturing value-added contributed by labour-intensive production remained constant between 1990 and 2000 at 29 per cent (Table 2.13).

Increasingly, the employment burden in India has been taken up by the large informal sector – the residual employer – which has created work for people who could not find work in agriculture and have left the rural areas.

TABLE 2.10
Composition of Manufacturing Value-Added in China and Malaysia (%)

Industry	*1980*	*1990*	*2000*
		China	
Labour-intensive	–	29	21
Natural resources	–	25	27
Food, beverages & tobacco	–	15	14
Transport equipment	–	4	7
Metal working, office equipment, etc.	–	24	27
Others	–	3	4
		Malaysia	
Labour-intensive	26	27	18
Natural resources	25	23	19
Food, beverages & tobacco	21	13	10
Transport equipment	4	6	4
Metal working, office equipment, etc.	21	30	47
Others	3	1	2

Source: UNIDO 2004.

TABLE 2.11
Growth of Output and Employment in the Services Sectors

	1980s			*1990s*		
	Employment growth	*Rate of output growth*	*Employment elasticity*	*Employment growth*	*Rate of output growth*	*Employment elasticity*
East Asia & Pacific						
Wholesale & retail trade	6.2	9.5	0.65	5.0	7.8	0.64
Transport, storage & communications	6.1	10.4	0.59	3.4	8.4	0.40
Financing & insurance	7.5	5.6	1.34	6.0	3.6	1.67
Community, social & personal services	4.2	2.0	2.10	1.6	1.5	1.07
South Asia						
Wholesale & retail trade	2.5	5.0	0.50	4.5	3.5	1.29
Transport, storage & communications	2.3	6.3	0.37	4.8	8.0	0.60
Financing & insurance	5.2	9.5	0.55	5.9	9.1	0.65
Community, social & personal services	1.0	6.3	0.16	2.0	1.3	1.54

Source: Palanivel 2006.

TABLE 2.12
Overall Growth of Employment and GDP and Employment Elasticity in Selected Countries

	1980s			1990s		
	Employment growth	*GDP growth*	*Employment elasticity*	*Employment growth*	*GDP growth*	*Employment elasticity*
China	4.3	9.4	0.46	1.1	10.1	0.11
Indonesia	3.9	6.4	0.61	1.7	4.4	0.39
Malaysia	3.4	6.0	0.57	3.4	7.2	0.47
Philippines	2.8	1.8	1.56	2.1	3.1	0.68
Thailand	3.2	7.9	0.41	0.7	4.6	0.15
Viet Nam	4.2	4.6	0.91	2.2	7.6	0.29
East Asia & Pacific	*4.2*	*7.4*	*0.56*	*1.2*	*8.2*	*0.15*
Bangladesh	3.1	4.1	0.76	4.1	4.8	0.85
India	1.5	5.8	0.26	1.2	5.5	0.22
Pakistan	2.0	6.3	0.32	2.2	4.0	0.55
Sri Lanka	1.0	4.2	0.24	1.4	5.2	0.27
South Asia	*1.6*	*5.7*	*0.28*	*1.6*	*5.2*	*0.31*

Source: Palanivel 2006.

TABLE 2.13
Composition of Manufacturing Value-Added in India (%)

	1980	*1990*	*2000*
Labour-intensive	37	29	29
Natural resources	24	26	31
Food, beverages and tobacco	9	12	13
Transport equipment	8	10	7
Metal working, office equipment, etc.	21	19	17
Others	1	4	3

Source: UNIDO 2004.

TABLE 2.14
Growth in Total Factor Productivity in Selected Countries

	1980s	*1990s*
East Asia & Pacific		
Malaysia	0.5	1.8
Philippines	–0.9	–0.3
Thailand	2.0	0.0
Viet Nam	2.0	3.7
South Asia		
India	1.6	2.5

Source: Calculated from Palanivel 2006.

Table 2.11 indicates that much of this employment has been in wholesale and retail trade, most of which is in the informal sector. Here, by contrast, the employment elasticity has increased substantially, indicating that more people are working in this sector, but without a proportionate increase in output, and thus will be earning lower wages. Overall, however, employment growth in India has been fairly low, at around 1 per cent.

The situation is somewhat better in other countries in the subregion. In Bangladesh, for example, employment growth has increased significantly, primarily because of the expansion in the labour-intensive garment export industry, and there has also been some improvement in Pakistan and Sri Lanka.

Conditions in the Labour Market

Rising output without a corresponding rise in employment is disadvantageous from the standpoint of human development. However, it does have a positive aspect, since it signals a rise in labour productivity. Many enterprises have become more capital-intensive, either because they have been investing in new or replacement labour-saving equipment, or because they have responded to competitive pressure, either in the domestic or international markets, by shedding labour.

In East Asia labour productivity increased rapidly in the 1990s, by over 7 per cent annually – and 10 per cent in industry. In South Asia the corresponding rates of growth were between 3 and 3.5 per cent. Across the region, this has been accompanied by rises in total factor productivity (TFP), which is the effect of technology and management on output. However there are considerable differences between countries in the rise in TFP (Table 2.14). Viet Nam, for example, has been sharpening its competitive edge with annual increases of almost 4 per cent – which explains its boost in exports. India too has shown a respectable growth of 2.5 per cent in TFP. In Thailand, however, TFP has been stagnant, and in the Philippines it has been falling.

These changes in productivity also have an effect on wages. In countries that have relatively tight labour markets and low unemployment, rising productivity is likely to lead to increases in real wages. In East Asia real wages have indeed been rising rapidly: 7 per cent annually in Malaysia, 11 per cent in China, and 12 per cent in Indonesia. In South Asia, on the other hand, where productivity rises have been smaller and unemployment is higher, there was little change in the 1990s: a marginal improvement in Bangladesh; flat in India, Nepal and Sri Lanka; and a small decline in Pakistan.[19]

There have also been changes in the skill levels of the workforces across the region. This can be seen from the education levels of the unemployed, which tend to be lower as countries move to higher levels of technology. As Figure 2.11 illustrates, in both Indonesia and Thailand, the proportion of the unemployed who were more highly educated fell between 1990 and 2000. This is not surprising given the shift towards medium- and high-technology industries and modern formal-sector services like telecommunications, banking and insurance, which tend to utilize skilled workers more. In India and Sri Lanka, on the other hand, the proportion of the more educated among the unemployed has risen – giving rise to the phenomenon of graduate unemployment.

There are also differences between the subregions on the employment of women. In East Asia female participation rates are high, close to 80 per cent, but women are more likely than men to be unemployed (Figure 2.12). In South Asia the participation rates are lower, 30 to 70 per cent, but there tend to be smaller disparities in the unemployment rates. Indeed, in Bangladesh the rate in the 1990s was significantly lower for women – a result in part of their opportunities for work in the garment sector.

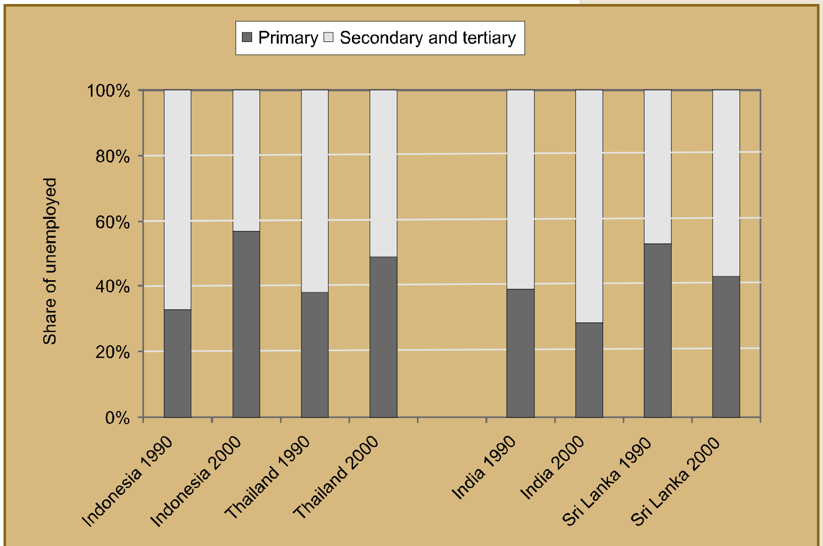

Figure 2.11: Education level of the unemployed

Source: World Bank 2005.

Many enterprises have become more capital-intensive

Conclusions

The above discussion demonstrates that there were fundamental differences between East Asia and South Asia in the 1990s in the linkages between trade, growth and employment. Looking at South Asia, the process of trade liberalization really got under-way during the

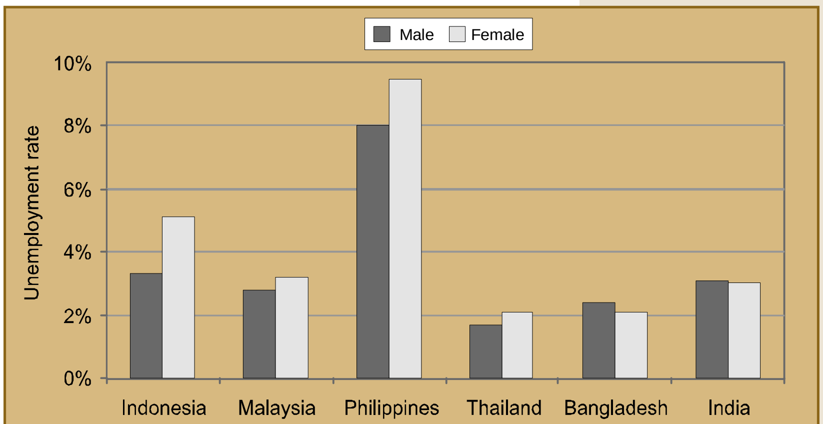

Figure 2.12: Unemployment rate by sex, 1990s

Source: ILO 2005a.

decade. Exports, both of merchandise and services, responded positively, but there was also an upsurge of imports, including those of agricultural products. The overall growth rate fell somewhat, with the export stimulus being neutralized possibly by the displacement effect of imports on industry and agriculture.

However, the rate of employment growth, albeit modest, remained unchanged, owing primarily to three factors: first, stability in the industrial structure sustained by continued reliance on labour-intensive manufactured exports; second, buoyancy of labour-intensive services owing again to the rapid growth of service exports and role of the informal sector and; third, limited changes in the choice of techniques within industries in the presence of high real interest rates, which raised the cost of capital, and relative stagnation in real wages.

The impact of trade on poverty was adverse when judged from the viewpoint of the fall in growth, especially of agriculture. However, it was positive from the viewpoint of faster export growth in labour-intensive manufactures and services, and some improvement in conditions in the labour markets for relatively unskilled and female workers.

By the beginning of the 1990s, the process of trade liberalization had been under-way for some time in most East Asian countries. Conditions were ripe for a takeoff to higher rates of export-led growth. This is what happened: exports showed a double-digit growth rate, the balance of trade improved substantially and the economic growth rate went up appreciably, primarily in the manufacturing sector, but agriculture lost some of its dynamism. There were big changes also in the composition of exports. The share of agricultural products fell, while that of manufactured goods rose sharply. As East Asia moved up the international division of labour, the share in manufacturing output and exports of high-tech, skill-intensive products rose, while that of labour-intensive products declined. Simultaneously, the choice of technique in individual industries shifted towards greater capital intensity. These developments were facilitated by low real interest rates and rapid increases in real wages, primarily due to increased labour productivity.

The consequence was that the employment growth rate plummeted, even in the presence of faster growth in output. There was 'jobless growth' both in agriculture and manufacturing. The overall unemployment rate increased, and labour market conditions probably deteriorated for unskilled workers. The rising gaps between urban and rural income, between capital and labour income and between the incomes of skilled and unskilled workers have led to sharp increases in inequality. The failure of employment to rise and the growing income disparities imply that the 'trickle down' effect of fast trade and income growth on human development and poverty reduction is limited.

Overall, the linkage between trade and growth is strong in East Asia, while the linkage between growth and employment is weak. In South Asia, the relationship between trade and growth is weaker, while that between growth and employment is stronger.

It is interesting to note that in spite of the contrasting experience of relatively lower growth but more pro-poor growth in South Asia in relation to East Asia, both regions have shown virtually the same rate of decline, of about one percentage point per annum, in the incidence of poverty in the second half of the 1990s. The basic lesson is that while growth matters, the nature of this growth also matters.