

# An international perspective on South Asian job creation

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# Three questions

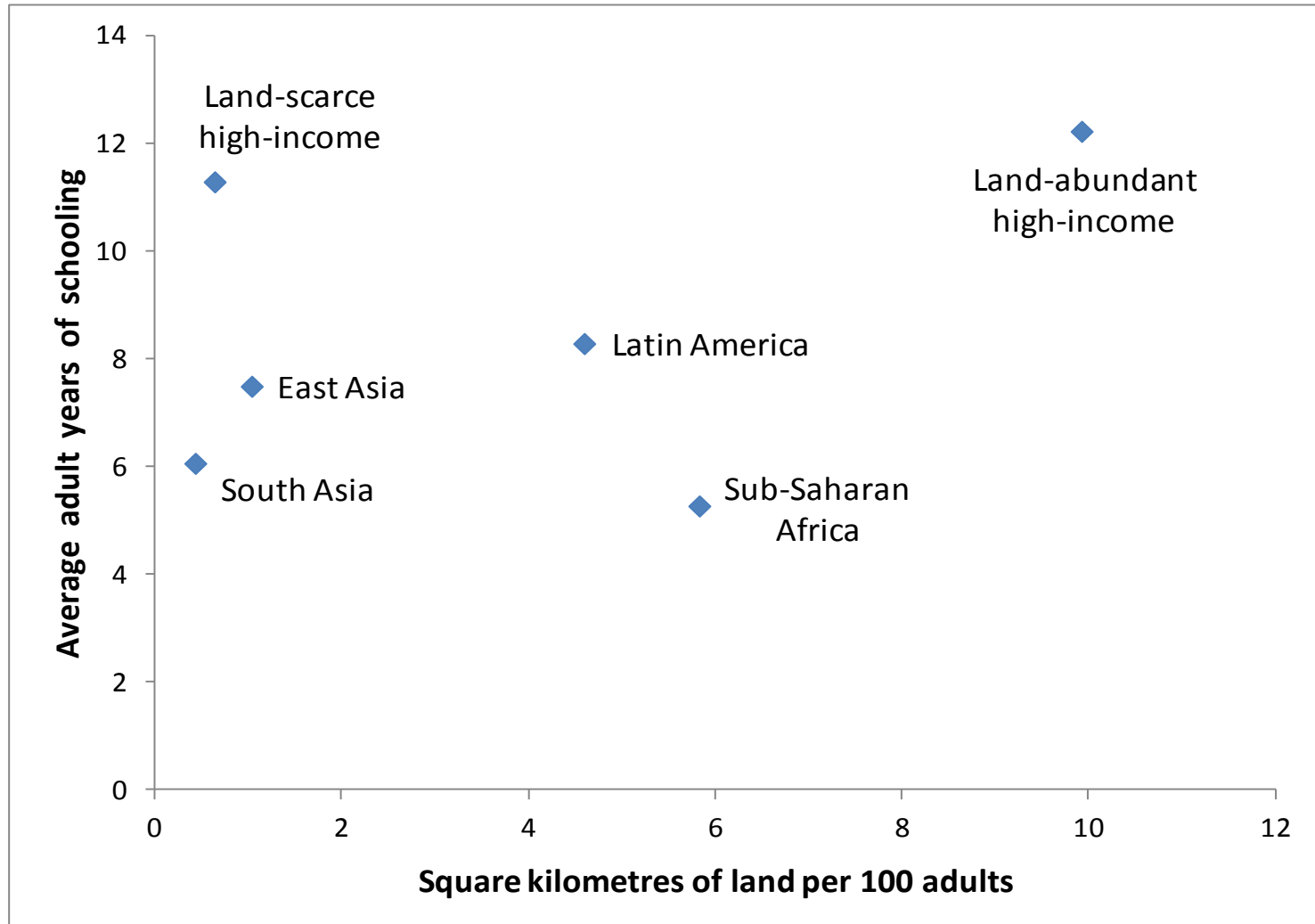
- How far and in what ways is South Asia's job creation failure causally linked to its failure to get more integrated into the world economy?
- Could South Asia still create many more jobs by exporting labour-intensive manufactures?
- What would South Asia need to do to expand its labour-intensive manufactured exports?

# Labour-intensive manufactured exports and factor endowments

# Labour-intensive manufactures

- Goods with a high unskilled labour content
  - Low natural resource share of production cost
  - High share of unskilled workers in wage bill
- Land and labour endowments basic source of comparative advantage (capital is mobile)
- Production costs of labour-intensive mfs tend to be relatively low in countries where:
  - Low ratio of natural resources to labour
  - Low ratio of skilled to unskilled workers

# Regional endowments 2010



Source: calculations based on Barro and Lee (2010), WDI

How far and in what ways is South Asia's job creation failure causally linked to its failure to get more integrated into the world economy?

# Suggestive comparisons

	LMIC	South
<b>2010</b>	East Asia	Asia
Factory employment (millions)	100.1	18.7
Factory jobs/labour force (%)	9.1	3.0
Labour-int. mfd exports/GDP (%)	19.3	6.9
Exports (goods+services)/GDP (%)	32.8	20.6
Manufactured/total exports (%)	80.4	57.4
Labour-int./all mfd exports (%)	73.3	58.2
Manufacturing output/GDP (%)	30.2	14.8
Industry/total employment (%)	26.6	22.4
Factory/industry employment (%)	34.2	13.2

Source: calculations based on UNIDO, WDI, Comtrade data

# Individual South Asian countries

<b>2010</b>	India	Pakistan	Bangla -desh	Afghan -istan	Nepal	Sri Lanka
Factory employment (millions)	12.1	0.9	5.0	0.0	0.2	0.5
Factory jobs/labour force (%)	2.6	1.6	6.8	0.5	1.4	6.4
Labour-int. mfd exports/GDP (%)	6.3	7.0	13.1	0.2	3.6	10.4
Exports (goods+services)/GDP (%)	22.0	13.5	16.0	10.0	9.6	22.4
Manufactured/total exports (%)	56.2	62.4	84.0	3.0	45.0	51.3
Labour-int./all mfd exports (%)	51.0	82.9	97.6	66.6	82.8	90.4
Manufacturing output/GDP (%)	14.8	13.6	16.9	12.9	6.5	18.0

Source: calculations based on UNIDO, WDI, Comtrade data



# Simple explanations?

	East Asia	South Asia
<i>South Asian countries are less open to trade because they are bigger?</i>		
Average labour force 2010 (millions)	92	105
Without China and India	29	32
<i>East Asian manufactured exports are inflated by their import content?</i>		
Domestic VA/gross mfd exports 2010 (%)	59	66
<i>Fewer South Asian unskilled workers have a good basic education?</i>		
Average years of schooling 1990	5.6	3.9
Labour force by level of education 1990 (%)		
Tertiary	2.7	2.9
Complete primary plus secondary	51.0	28.2
No schooling or incomplete primary	46.3	68.8

Source: calculations based on WDI, OECD TiVA database, Barro & Lee

# More complex analysis

- Trade and jobs are both endogenous variables
- Need to consider *net* trade: more exports cause more imports, which displace employment
- Eg Vashisht (2015) on India: since 1990, trade added 3.7m and subtracted 1.4m mfg jobs
- Trade may cause labour-displacing changes in techniques (Vashist; Sen and Das, 2015)
- More trade raises per capita income, altering composition of domestic demand

# Alternative Indias (1995)

	Actual Indian structure	Doubled exports/GDP same export composition	+ Changed structure of domestic demand	Alternative Indian structure
<b>Sectoral shares of employment</b>				
Agriculture and mining	63.1	-0.8	-6.8	56.3
<b>Manufacturing, of which</b>	<b>10.9</b>	<b>0.3</b>	<b>3.3</b>	<b>14.2</b>
Processed primary	2.9	0.0	0.8	3.7
<b>  Labour-intensive</b>	<b>6.7</b>	<b>0.6</b>	<b>2.3</b>	<b>9.0</b>
Skill-intensive	1.3	-0.3	0.3	1.6
Services, of which	26.1	0.4	3.4	29.5
Labour-intensive	19.4	0.5	2.5	21.9
Skill-intensive	6.7	-0.1	1.0	7.6
Total employment	100.0	0.0	0.0	100.0

Source: adapted from table 8 of Wood & Calandrino (2000)

# Answers to first question

- Linked in what ways? Complex causality
- How far (to what extent)? Conflicting results
  - About 40 million fewer formal sector mfg jobs?
  - An order of magnitude smaller, maybe negative?
  - Former would have required far more than cuts in policy barriers to trade analysed by latter.
  - Eg better-educated S Asian unskilled workers
- Could both E and S Asia have succeeded?
  - Head-on competition for the same world markets

Could South Asia still create many more jobs by exporting labour-intensive manufactures?

# China up-market move opportunity

- Current conventional wisdom: new scope for others in labour-intensive manufacturing
- Evidence of this process starting to happen
- How big? Up to 50 million jobs in mfg, plus similar number in services, over two decades
- A quarter of global formal mfg employment, but a tiny share of the global labour force
- S Asia is well placed, but in stiff competition with other East Asia and rest of world

What would South Asia need to do to expand its labour-intensive manufactured exports?

# The usual suspects

- Improved infrastructure and urbanisation
- Reduced costs and greater convenience of international business, esp for foreigners
- Expansion and improved quality of primary and especially secondary education
- More flexible labour market institutions
- Variation among South Asian countries
- Significant progress over past 25 years



# Progress since 1990

<b>Changes 1990-2010</b>	LMIC East Asia	South Asia	India	Pak- istan	Bangla -desh	Nepal	Sri Lanka
Factory employment (millions)	39.6	9.5	4.9	0.3	3.9	0.0	0.3
Factory jobs/labour force (%)	2.0	0.8	0.4	-0.3	4.6	-0.3	2.2
Labour-int. mfd exports/GDP (%)	10.3	2.6	3.0	-2.5	9.6	-0.8	-0.6
Exports (goods+services)/GDP (%)	11.6	12.2	15.0	-2.0	10.1	-0.9	-7.8
Manufactured/total exports (%)	20.2	-3.2	-5.8	-1.4	20.8	1.5	10.3
Labour-int./all mfd exports (%)	2.9	-24.6	-25.8	-12.6	1.8	-12.7	1.7
Manufacturing output/GDP (%)	0.3	-1.2	-1.4	-3.8	4.3	0.5	3.2

Source: calculations based on UNIDO, WDI, Comtrade data

# Political economy

- Usual suspects have been obvious for decades
- Why have reforms been so limited and slow?  
Eg long-term neglect of basic education
- Big puzzle to anyone who knows East Asia.
- Mistaken policy analysis? Political paralysis?  
Elites uninterested in inclusive development?
- Understanding the reasons seems essential for  
both predicting and improving the future

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