INVOLVING WORKERS
IN EAST ASIA'S GROWTH
Involving Workers in East Asia's Growth
Involving workers in East Asia's growth.

“This report was prepared in conjunction with World Development Report 1995: Workers in an Integrating World”.

Includes bibliographical references (p. 38).


HD8720.5.158 1995
305.5'62'095—dc20

96-31886  
CIP

ISSN 1020-3648
Contents

Foreword v

1 Employment Crises and Employment Miracles 1

2 Labor Outcomes 2
   Income profile 2
   Changes in labor productivity 3
   Gains in rural productivity 5
   Structural transformation of employment 5
   Higher wages in the urban economy 6

3 Will International Engagement Bring Rising Gains for Workers? 9
   A new phase of integration 9
   Rising integration of labor-intensive giants 10
   Mobile international capital 13
   Managing structural shifts: Upgrading and inequality 14
   Managing international migration for mutual gain 15

4 Labor Policies, Labor Institutions, and Workers' Welfare 18
   Banning child labor 18
   Standards affecting working women 20
   Safety and health standards 21
   Minimum wages 22
   The role of unions 23
   Dealing with income security 26

5 Labor in the Transition from Central Planning 29
   Transition and rural farmers and workers 29
   Urban labor markets and state enterprise reform 31

6 The Outlook for East Asian Workers in the Twenty-First Century 36

Notes and References 38
This report was prepared in conjunction with *World Development Report 1995: Workers in an Integrating World*. It was written by Nisha Agrawal, David Lindauer, and Michael Walton, with support from Vinod Aguja and Deon Filmer. Detailed comments were provided by Alejandra Cox-Edwards, Peter Moock, and Gustav Ranis. Many colleagues both inside and outside of the World Bank provided useful suggestions, including Joseph Goldberg, Sue Horton, Frida Johansen, Samuel Lieberman, Jennie Litvack, Stephen Pursey, and Zafiris Tzannatos. The report was edited by Meta de Coquereaumont and laid out by Mark Bock, both of American Writing Corporation.
Foreword

East Asia has enjoyed extraordinary economic and social success over the past few decades. Workers on farms, in factories, and in services have been at the core of this success. Farmers have adopted new techniques. Men and women have moved from rural to urban areas in search of a better living. Families have put their children through more and more years of schooling. All this has led to enormous increases in the productivity of work that in turn have contributed to rapid growth in the incomes of nations and of workers. In the fast-growing developing market economies of East Asia, industrial employment rose 400 percent and industrial wages 170 percent, in real terms, between 1970 and 1990. Incomes from self-employment rose by comparable amounts.

Yet both rich and poor East Asian economies face challenges that must be met if social progress is to be sustained. Almost three-quarters of the region's workers live in low-income countries that are struggling with the transition from central planning. The entire region is an important part of the global trend toward deeper international integration of economic activities, with profound ripple effects for national economies. And many economies face questions of how to modernize labor relations and develop mechanisms to provide security for workers and their households, as informal coping mechanisms decline with the rise of modern, urban-based work.

This report, a summary of the key messages of World Development Report 1995: Workers in an Integrating World, reviews East Asia's development from the perspective of labor and explores the new challenges faced by the region's governments and workers. It shows how good policies have been central to gains to workers in the past and discusses the implications of globalization, the problems faced by many workers, the complex requirements for better labor policy, and the special difficulties faced by transition economies.

The report concludes that the future is potentially bright for East Asia's workers, but only if the new policy and institutional challenges are effectively met. The key areas for policy vary greatly by the stage of development. They include sound basic education and agricultural development strategies in Indochina, dealing with the special needs of China's state enterprise workers in the process of transition, modernizing labor policy in many economies, and managing the process of labor upgrading in a world of shifting comparative advantage in East Asia's newly industrializing economies. Special attention needs to be paid to the vulnerable, notably children forced by poverty to work in exploitative conditions. In all these areas the involvement of workers in the process of social and economic change is critical to the welfare of nations and to the lives of the workers and their families. I hope this report contributes to discussion within East Asia on the complex challenges that lie ahead.

Russell J. Cheetham
Vice President
East Asia and the Pacific Region
Employment Crises and Employment Miracles

Concern over an employment "crisis" is being expressed worldwide. In Europe open unemployment rates are in double digits and proving unexpectedly persistent. In the United States wage inequality has been increasing since the late 1970s after declining for decades. Countries in Eastern Europe undergoing the transition to a market economy suddenly face widespread open unemployment—a problem unknown under central planning. Plummeting real wages have eroded the standard of living of workers in Africa, Latin America, and the Middle East during struggles with structural adjustment. And in the low-income countries of South Asia underemployment and low returns to work remain endemic.

East Asia is different. The past decades have produced not an employment crisis but an employment miracle. Many countries in the region have been transformed from predominantly poor agrarian economies to rapidly industrializing economies, with workers sharing in the fruits of growth and transformation.

But it would be a mistake to conclude that East Asia has solved its employment problems. On the contrary, almost three-quarters of the working age population in East Asia still lives in economies that are both low-income and in transition from central planning. And the middle-income and newly industrialized economies confront new issues: of developing a sound framework for decent working conditions, industrial relations, and income security and of managing the process of labor upgrading as they move up the ladder of international production. Both within and outside East Asia there is great interest in the consequences of rising international integration through trade, capital flows, and migration. The impact of China's immense workforce concerns many.

This regional perspective on World Development Report 1995: Workers in an Integrating World (World Bank 1995c), considers both the achievements of East Asia's workers and the challenges still facing them. Four key messages emerge:

- Workers in East Asia and the Pacific have been major beneficiaries of the region's spectacular growth. The market-based pattern of growth adopted by East Asian economies has led to a sustained increase in employment, wages, and labor incomes. Growth in the productivity of labor—especially through more capital and a deepening of skills, essential features of the East Asian "miracle"—has been shared with labor and is the cornerstone for improvements in workers' welfare.
- With few exceptions the region has been a paradigm of how international engagement brings large gains in wage incomes. Export-led growth is likely to continue with increasing participation in the international economy and at increased skill levels. Middle- and higher-income economies face the challenge of upgrading their workforces and managing relocation as unskilled jobs move to lower-wage locations. But this is a domestic policy challenge and not a case for slowing integration. There is also a risk of a backlash from the industrial countries against rising competition from East Asia. But success in East Asia generally leads to gains, not losses, for workers elsewhere.
- Along with market-based growth and international integration, labor market policies in East Asia have made an important contribution to the labor-intensive pattern of growth that has benefited East Asia's workers. In particular, governments in market-based economies in the region have relied primarily on markets to determine wages and have avoided government-managed wage-setting institutions. With the increasing transformation of the workforce to a more urban and industrial one, however, many economies in the region face new demands to deal with conditions in the industrial workplace, to modernize systems of industrial relations, and to introduce formal mechanisms that provide for the social security of the urban workforce and protect the vulnerable. Given the trend toward freer unions in the region, the challenge for policymakers is to create an environment that minimizes the negative effect of unions while it encourages their positive contributions to growth and equity.
- Most workers in the transition economies have been enjoying significant gains from the reforms, especially in China, Lao PDR, and Vietnam, where growth has been rapid. But there is a long road ahead, both to maintain growth in rural productivity, which is vital to the majority of the population who still lives in rural areas, and to develop a well-functioning urban labor market that will underpin employment growth in industry and services. For China labor market reform is tied up with the major challenge of reforming state enterprises and disentangling the provision of housing, income security, and social services from the labor contract.
A lmost 1.2 billion people of working age (fifteen to sixty-four years old) live in the low- and middle-income economies of East Asia and the Pacific, and more than 100 million are in the region's high-income economies. They account for one of every three people of working age in the world. Many of these workers remain in desperate poverty. Applying the poverty lines commonly used within these countries shows some 200 million people living in absolute poverty. Using a frequently applied international yardstick—$1 a day per person—probably doubles this figure. But many workers have experienced remarkable economic gains in the past few decades. The variance in labor outcomes across countries in the region is far greater than in any other region and stands as a testament to what labor can achieve from rapid and sustained economic growth.

China alone accounts for 70 percent of East Asia and the Pacific's total working age population. Although it has achieved rapid economic growth over the past fifteen years, with a 1993 income per capita estimated at $490, China is still classified as a low-income economy. This is the main reason why, despite the frequently cited East Asian economic miracle, almost three-quarters of the region's working age population continues to live in low-income economies (Table 1).

From a global perspective this also explains why almost half the working age population of low-income economies resides in East Asia.

**Income profile**

The income profile of East Asian economies is captured by the region's aggregate structure of employment (Figure 1). Agriculture engages 57 percent of the labor force, the overwhelming majority on their own farms. Industry (manufacturing, mining, construction, and utilities) occupies another 17 percent, and services (commerce, transport, government, and personal services), 23 percent. The remaining 3 percent are officially recognized as unemployed—seeking work but unable to find any. When China is excluded from the region, the distribution of the labor force is more heavily influenced by the region's middle-income economies. Agriculture still dominates, accounting for almost one of every two workers, but the share of employment in services rises to 30 percent and open unemployment rates advance to 5 percent—though it is still lower than in any other region.

The overwhelming majority of the working age population in East Asia is at work. At more than 80 percent East Asia's labor force participation rate is significantly higher than that of any other region—it is only 56 percent in Latin America, 58 percent in South Asia, and 70 percent in OECD countries. Participation rates vary considerably within the region, however. For men they range from about 75 percent in the Republic of Korea to more than 90 percent in Lao PDR and Malaysia (see Table 1). For women they vary even more, from a reported 38 percent in Indonesia and the Philippines to 67 percent in Thailand and 80 percent in China. The variance in participation rates reflects differences in income status (for men labor force participation rates tend to decline as incomes rise; for women participation tends first to fall and then to rise as incomes grow), economic systems (participation rates, especially for women, are higher in countries with a socialist legacy), and culture (participation of women is lower, or is recorded as lower, in Islamic societies).

In addition to the labor force between the ages of fifteen and sixty-four, there are 25 million children between the ages of ten and fourteen working in East Asia and the Pacific, according to an ILO estimate. The number of child workers is underestimated in all economies, more so where agriculture predominates; thus the actual number of child workers in the region is certain to include many million more.

One recent international survey of occupational earnings confirms the huge variance in labor outcomes in the region (Figure 2). Measured in terms of purchasing power parity, the wages of an engineer in Tokyo are thirty times those of an unskilled female textile worker in Jakarta. Some of this difference can be traced to the occupational wage structure within countries—the pay ratio of engineers to unskilled female textile workers is 9 to 1 in Jakarta and 2.5 to 1 in Tokyo. And some is due to international differences in the returns to different occupations—the pay ratio between Japan and Indonesia is 3 to 1 for engineers and 12 to 1 for unskilled female textile workers (Table 2).

Because this information applies only to the wage sector—less than 30 percent of the region's workforce—the regional spread in labor incomes is even greater than suggested here. The annual earnings of construction workers in Vietnam, one of the poorest economies in East Asia, are comparable to the earnings of unskilled industrial labor in Indonesia. But rural workers in Vietnam (and most everywhere else) tend to receive far less for
Most workers in East Asia and the Pacific live in low-income economies

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Men</td>
</tr>
<tr>
<td>Low-Income economies (72 percent)*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vietnam</td>
<td>170</td>
<td>918</td>
<td>92</td>
</tr>
<tr>
<td>Cambodia</td>
<td>206</td>
<td>43</td>
<td>77</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>280</td>
<td>5</td>
<td>86</td>
</tr>
<tr>
<td>Myanmar</td>
<td>n.a.</td>
<td>27</td>
<td>51</td>
</tr>
<tr>
<td>Mongolia</td>
<td>390</td>
<td>1</td>
<td>89</td>
</tr>
<tr>
<td>China</td>
<td>490</td>
<td>823</td>
<td>75</td>
</tr>
<tr>
<td>Korea, Dem. Rep.</td>
<td>859</td>
<td>45</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle-Income economies (20 percent)*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>740</td>
<td>251</td>
<td>85</td>
</tr>
<tr>
<td>Philippines</td>
<td>850</td>
<td>40</td>
<td>86</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>1,130</td>
<td>3</td>
<td>58</td>
</tr>
<tr>
<td>Thailand</td>
<td>2,110</td>
<td>39</td>
<td>67</td>
</tr>
<tr>
<td>Malaysia</td>
<td>3,140</td>
<td>12</td>
<td>52</td>
</tr>
<tr>
<td>Korea, Rep. of</td>
<td>7,669</td>
<td>32</td>
<td>41</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High-income economies (8 percent)*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taiwan, China</td>
<td>10,697</td>
<td>107</td>
<td>73</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>18,060</td>
<td>14</td>
<td>45</td>
</tr>
<tr>
<td>Singapore</td>
<td>19,850</td>
<td>4</td>
<td>50</td>
</tr>
<tr>
<td>Japan</td>
<td>31,490</td>
<td>87</td>
<td>53</td>
</tr>
<tr>
<td>Region</td>
<td>3,090c</td>
<td>1,276</td>
<td>92</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>70</td>
</tr>
</tbody>
</table>

n.a. Not available.

Note: East Asia and the Pacific refers primarily to economies defined in World Bank 1995c as belonging to the region. This table includes countries if they had a 1995 working age population of at least one million and a 1993 GNP per capita below $10,000. Also included are Hong Kong, Japan, Singapore, and Taiwan, China, which have 1993 GNP per capita greater than $10,000. Income status is as defined in World Bank 1995c. Low-income refers to economies with 1993 GNP per capita below $695; middle-income between $695 and $8,626; high-income greater than $8,626.

a. Share of East Asia's working age population in each income group.
b. The Democratic Republic of Korea is classified as a low-income economy, in view of the high degree of uncertainty over the market value of its currency.
c. The region's GNP per capita is a weighted average, with the working age population of each economy serving as the weight.

Myanmar and the Democratic Republic of Korea are excluded from the estimate.

Source: All GNP per capita data are from World Bank 1995c except Cambodia, World Bank 1994b; Democratic Republic of Korea, The Economist, 3 June 1995; and Taiwan, China, PRC 1994. Population data are from ILO 1986 and ILO data updates except Singapore and Taiwan, China, which are from Bos and others 1994.

Changes in labor productivity

The wide variance in labor outcomes in East Asia today is largely the product of the past two to three decades. With the exception of Japan, which had already significantly industrialized by the middle of this century, most of the region was still mired in poverty as recently as 1960. There were some partial exceptions: Hong Kong and Taiwan, China, early on had initiated an outward orientation and showed signs of success, and the Philippines was once seen as a front-runner. But widespread economic progress in the region did not begin until the 1960s and then accelerated in the decades that followed.

The benefits to labor of the region's growth are captured by the rapid growth in gross domestic product (GDP) per worker. Output per worker, a measure of economywide labor productivity, is a less direct measure of labor outcomes than are wages, but it has several advantages. Estimates of GDP per worker are abundant both across countries and over time; the measure covers workers in all sectors, not just in those sectors that pay
Agriculture still employs the largest share of the labor force

Figure 1. Distribution of the labor force (ages 15-64) in East Asia and the Pacific

Including China

- Nonwage services: 11%
- Wage services: 12%
- Nonwage industry: 11%
- Wage industry: 6%
- Unemployment: 3%
- Nonwage agriculture: 54%
- Wage agriculture: 3%

Excluding China

- Nonwage services: 14%
- Wage services: 16%
- Nonwage industry: 5%
- Wage industry: 12%
- Unemployment: 5%
- Nonwage agriculture: 42%
- Wage agriculture: 7%

Note: Data are projected from a sample of low- and middle-income countries in the region.

Occasional earnings differ enormously across the region

Figure 2. Wage hierarchy in East Asia and the Pacific, 1994
(U.S. dollars per year)

Note: Wages are based on earnings adjusted for purchasing power parity.
wages; and it is a reasonably robust predictor of labor outcomes. For farm households (or household enterprises) that employ only family members the association between rising labor productivity and increasing returns to work activity is straightforward—if each family worker produces more, the family will consume more. A comparable, if less direct, relationship holds in more formal employment relationships. In an economy with growing overall labor productivity employers not only are able to pay more, they are compelled to do so because they must compete with other employers for labor that is increasingly productive in different activities.

East Asia's record of labor productivity growth over the past three decades is unprecedented. For the region as a whole estimates of productivity growth exceed those in all other regions in every decade, with the gap widening over time (Figure 3). During the early 1990s productivity growth in East Asia accelerated and reached unprecedented levels, in marked contrast to the experience in every other region, where productivity changes were negligible and even negative. Because these estimates of productivity growth are weighted averages, dominated by the most populous countries in each region, the comparative performance of East Asia is driven by the achievements of the Chinese economy. But a disaggregated view of productivity growth in the region demonstrates that China was not alone (Figure 4). Rapid productivity growth has been the rule throughout East Asia. For ten of the thirteen countries for which data are available average labor productivity growth from 1980 to 1993 was more than 2.5 percent a year, well above the average for any other region of the world.

For the successful economies three interrelated processes contributed to rising incomes for workers: gains in rural productivity and wages, movements of workers from lower-productivity agriculture to higher-productivity industry and services, and rising wages in the urban economy (Box 1).

### Gains in rural productivity

Evidence of increasing returns to farmers is provided by sharp rises in average agricultural income per worker and by large reductions in rural poverty—for which rising agricultural income is the driving force. According to World Bank estimates, the poverty incidence fell between 1970 and 1990 from 70 to 23 percent of the rural population in Indonesia and from 55 to less than 20 percent in Malaysia. Although only a minority of rural workers are in wage work, they have a relatively high incidence of poverty in some countries because they are landless or near-landless. Concerns are frequently expressed that the productivity growth that is central to agricultural progress is labor-displacing and so hurts this group (this was hotly debated in Indonesia, for example, in the late 1970s and early 1980s). The evidence suggests that rural wage earners generally benefit from overall agricultural growth, especially when it is combined with growing labor demand in urban areas. Agricultural wage growth was rapid in three economies with good growth overall and in agriculture but was negative in the Philippines, where overall growth was slower (Table 3).

### Structural transformation of employment

The structure of employment also has shifted, with labor moving out of low-productivity agriculture toward higher-productivity activities in industry and services (Figure 5). The low-income economies in the region continue to depend

---

**Table 2. Wage hierarchy in East Asia for formal sector workers, 1994**

<table>
<thead>
<tr>
<th>City</th>
<th>GNP per capita (1993 U.S. dollars)</th>
<th>Ratio of GNP per capita to Jakarta's</th>
<th>Unskilled</th>
<th>Skilled worker</th>
<th>Bus driver</th>
<th>Construction worker</th>
<th>Female unskilled industrial worker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tokyo</td>
<td>31,490</td>
<td>6.6</td>
<td>30</td>
<td>22</td>
<td>19</td>
<td>15</td>
<td>12</td>
</tr>
<tr>
<td>Singapore</td>
<td>19,850</td>
<td>6.2</td>
<td>23</td>
<td>17</td>
<td>7</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>18,060</td>
<td>6.8</td>
<td>32</td>
<td>15</td>
<td>14</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Seoul</td>
<td>7,680</td>
<td>3.1</td>
<td>19</td>
<td>12</td>
<td>12</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Bangkok</td>
<td>2,110</td>
<td>2.0</td>
<td>21</td>
<td>8</td>
<td>4</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Manila</td>
<td>850</td>
<td>0.8</td>
<td>11</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Jakarta</td>
<td>740</td>
<td>1.0</td>
<td>9</td>
<td>7</td>
<td>3</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>

Note: Ratios are based on earnings adjusted for purchasing power parity. GNP per capita refers to the nation in which each city is located. Source: Union Bank of Switzerland 1994; World Bank 1995c.
heavily on agricultural employment, but they have started the transformation toward greater reliance on industrial and service employment. Economies that have already risen from low- to middle-income status have generally witnessed a dramatic transformation in employment. In the Republic of Korea employment in industry and services grew from 39 percent of total employment in 1960 to 82 percent in 1990.

Evidence on the structure of employment alone is insufficient to demonstrate that labor outcomes have improved, because even in economies with negative labor productivity growth (such as Mongolia and the Philippines) employment in industry and services has grown substantially (see Figure 5). But there are critical differences between their experience and that of the fast growers. In Mongolia (and in the Democratic Republic of Korea) employment outcomes were driven by a development strategy that generated jobs according to a central plan. Forced industrialization transformed employment but failed to provide sustainable benefits to workers in East Asia just as it had in Europe and everywhere else it was tried.

The Philippines case is different. The economy grew rapidly in the 1960s and experienced the expected pattern of employment transformation. Between 1960 and 1970 the share of employment in industry and services expanded from 36 to 46 percent. But over the next twenty years, as productivity growth slowed and eventually turned negative, the share increased only another 8 percentage points. Even more telling, only 2 percentage points of that increase was in private wage employment. The remainder was primarily in own-account employment in services—in other words, the economy's growing labor supply was absorbed in low-productivity employment in the urban informal sector (World Bank 1993b). This was not the case for the rest of East Asia, where the region's expanding workforce gained a rising share of formal sector wage employment as labor productivity improved.

**Higher wages in the urban economy**

Workers who secured wage employment in industry received higher wages than their rural counterparts and benefited from rising industrial wage rates. Evidence from surveys of manufacturing establishments indicate the speed with which average labor costs, a proxy for gross earnings, rose across the region.

---

**Labor productivity growth in East Asia is high and has accelerated over time**

**Figure 4. Growth rate of GDP per worker, selected East Asian economies, 1965–93 (percent)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Philippines</td>
<td>-1.5</td>
<td>-2.0</td>
<td>-2.5</td>
<td>0.5</td>
<td>1.0</td>
<td>2.0</td>
<td>2.5</td>
<td>3.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Mongolia</td>
<td>-2.0</td>
<td>-2.5</td>
<td>-3.0</td>
<td>-3.5</td>
<td>-4.0</td>
<td>-4.5</td>
<td>-5.0</td>
<td>-5.5</td>
<td>-6.0</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>-1.0</td>
<td>-1.5</td>
<td>-2.0</td>
<td>-2.5</td>
<td>-3.0</td>
<td>-3.5</td>
<td>-4.0</td>
<td>-4.5</td>
<td>-5.0</td>
</tr>
<tr>
<td>Vietnam</td>
<td>-1.5</td>
<td>-2.0</td>
<td>-2.5</td>
<td>-3.0</td>
<td>-3.5</td>
<td>-4.0</td>
<td>-4.5</td>
<td>-5.0</td>
<td>-5.5</td>
</tr>
<tr>
<td>Indonesia</td>
<td>-2.0</td>
<td>-2.5</td>
<td>-3.0</td>
<td>-3.5</td>
<td>-4.0</td>
<td>-4.5</td>
<td>-5.0</td>
<td>-5.5</td>
<td>-6.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>-1.0</td>
<td>-1.5</td>
<td>-2.0</td>
<td>-2.5</td>
<td>-3.0</td>
<td>-3.5</td>
<td>-4.0</td>
<td>-4.5</td>
<td>-5.0</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>-2.0</td>
<td>-2.5</td>
<td>-3.0</td>
<td>-3.5</td>
<td>-4.0</td>
<td>-4.5</td>
<td>-5.0</td>
<td>-5.5</td>
<td>-6.0</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>-1.5</td>
<td>-2.0</td>
<td>-2.5</td>
<td>-3.0</td>
<td>-3.5</td>
<td>-4.0</td>
<td>-4.5</td>
<td>-5.0</td>
<td>-5.5</td>
</tr>
<tr>
<td>Taiwan, China</td>
<td>-2.0</td>
<td>-2.5</td>
<td>-3.0</td>
<td>-3.5</td>
<td>-4.0</td>
<td>-4.5</td>
<td>-5.0</td>
<td>-5.5</td>
<td>-6.0</td>
</tr>
<tr>
<td>Singapore</td>
<td>-1.0</td>
<td>-1.5</td>
<td>-2.0</td>
<td>-2.5</td>
<td>-3.0</td>
<td>-3.5</td>
<td>-4.0</td>
<td>-4.5</td>
<td>-5.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>-2.0</td>
<td>-2.5</td>
<td>-3.0</td>
<td>-3.5</td>
<td>-4.0</td>
<td>-4.5</td>
<td>-5.0</td>
<td>-5.5</td>
<td>-6.0</td>
</tr>
<tr>
<td>Korea, Rep. of</td>
<td>-1.5</td>
<td>-2.0</td>
<td>-2.5</td>
<td>-3.0</td>
<td>-3.5</td>
<td>-4.0</td>
<td>-4.5</td>
<td>-5.0</td>
<td>-5.5</td>
</tr>
<tr>
<td>China</td>
<td>-2.0</td>
<td>-2.5</td>
<td>-3.0</td>
<td>-3.5</td>
<td>-4.0</td>
<td>-4.5</td>
<td>-5.0</td>
<td>-5.5</td>
<td>-6.0</td>
</tr>
</tbody>
</table>

**Note:** For Taiwan, China, GDP per worker in the second period refers to 1980–90.

**Source:** World Bank data; for Taiwan, China, Summers and Heston 1991; for Vietnam, Socialist Republic of Vietnam 1993.
Box 1. Turning points in the East Asian miracle

Early theories of the East Asian Miracle emphasized the importance of labor market discipline. Consequently, when labor discipline was thought to be diminishing, an early turning point would have been anticipated. More recent evidence on labor laws, agreements, and enforcement does not lend support to this view. Evidence on wages in the sectoral distribution of labor is even more persuasive. In East Asia, wage growth outpaced productivity growth in the manufacturing sector by a large margin. As a result, employers were unable to significantly raise productivity by moving workers into higher-productivity activities. The demand for labor in this sector has been shrinking. The substitution of capital for labor has been occurring at high rates in the manufacturing sector.

On the other hand, it is possible that the labor market has been undergoing a transformation. In Taiwan, Korea, and Malaysia, the increase in wages observed in the manufacturing sector during the 1970s and 1980s has been accompanied by a sharp rise in wages in services, particularly in the growing urban service sector. This suggests that the labor market has been expanding into new areas as productivity and wage growth have been converging in the manufacturing sector. In contrast, in the Philippines, where productivity growth has been relatively low, wage growth has been more modest. The evidence suggests that the labor market has been expanding into new areas as productivity and wage growth have been converging in the manufacturing sector.

In most cases even agricultural wage labor reaped substantial gains from growth

Table 3. Average annual growth in agricultural wages (percent)

<table>
<thead>
<tr>
<th>Country</th>
<th>Period</th>
<th>Growth in agricultural wages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>1976–88</td>
<td>3.7</td>
</tr>
<tr>
<td>Korea</td>
<td>1960–78</td>
<td>7.1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1971–82</td>
<td>4.0</td>
</tr>
<tr>
<td>Philippines</td>
<td>1965–77</td>
<td>-1.2</td>
</tr>
</tbody>
</table>


Direct evidence on wages or on returns to labor over time in activities other than manufacturing is difficult to obtain because it depends on having detailed household survey data that are comparable over time. In Malaysia, where it is possible to compare the growth of labor earnings for a variety of occupations, the evidence confirms that the benefits of growth were widespread (Table 4).

Rising labor productivity within sectors and movements of labor into sectors with higher productivity were the sources of the extraordinary gains achieved by East Asia's workers. An important corollary is the rising formalization of work, as workers move out of informal, largely family-based patterns of labor organization into more organized modern structures with more formal labor contracts. Dualistic labor market structures of this type exist in all regions, but in East Asia the differentials between labor returns in the formal and informal segments remained relatively modest as growth accelerated.

What were the keys to success? The overall rate has been frequently told and was summarized in World Development Report 1995 (World Bank 1995c; see also World Bank 1995a, Birdsall and Sabot 1993, and Ranis 1995).
Employment has shifted from low-productivity agriculture to higher-productivity sectors

Figure 5. Share of industry and services in total employment, 1960 and 1990 (percent)

<table>
<thead>
<tr>
<th>Country</th>
<th>1960</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vietnam</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cambodia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lao PDR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mongolia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Korea, Dem. Rep.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Korea, Rep. of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Myanmar</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Countries ranked by 1993 GNP per capita. Source: ILO 1986 and updates.

Workers in East Asia's manufacturing sector have had rising real earnings

Figure 6. Change in average labor costs in manufacturing in selected East Asian economies, 1973–93 (percent)

Note: Average labor costs are measured relative to each nation's level in 1973. Source: UNIDO and IMF data.

Growth in labor productivity was driven by a deepening of physical capital and rising skills per worker, which resulted from high investment rates in infrastructure, machines, schools, and health facilities.

This deepening of physical and human capital paid off because the overall economic environment ensured that investments were put to good use. Agriculture received a high priority and faced less negative bias than it did in other regions (World Bank 1995c; Schiff and Valdés 1992).

Outward orientation and an emphasis on exporting manufactured goods released the industrial sector from the shackles of domestic demand. The need to be internationally competitive ensured an efficient use of resources.

The early priority for education meant that a highly favorable dynamic equilibrium developed: rising demand for skilled workers from the fast-growing modern sector was met by rising supply, which helped cause a tightening in the labor market for relatively unskilled (and poorer) workers.

Governments avoided high degrees of protection for favored modern sector workers, and formal sector wages generally rose in line with productivity growth.

Growth in Malaysia has benefited workers in all sectors

Table 4. Growth of labor earnings for selected occupations in Malaysia, 1973–89

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Earnings in 1989 (index)</th>
<th>Annual average growth rate, 1973–89 (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage workers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General plantation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farm worker</td>
<td>50</td>
<td>3.0</td>
</tr>
<tr>
<td>Manufacturing worker</td>
<td>100</td>
<td>3.5</td>
</tr>
<tr>
<td>Self-employed workers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Street vendor</td>
<td>111</td>
<td>4.4</td>
</tr>
<tr>
<td>Hairdresser</td>
<td>95</td>
<td>4.6</td>
</tr>
<tr>
<td>Launderer</td>
<td>42</td>
<td>-1.6</td>
</tr>
<tr>
<td>Tea preparer</td>
<td>64</td>
<td>2.5</td>
</tr>
<tr>
<td>Truck driver</td>
<td>120</td>
<td>4.7</td>
</tr>
<tr>
<td>Shop owner</td>
<td>138</td>
<td>5.6</td>
</tr>
</tbody>
</table>

a. Earnings do not include estimates of the value of in-kind payments, including such payments would likely narrow the gap between plantation and other workers. Source: Malaysia Labor Force Survey 1973, 1989.
Will International Engagement Bring Rising Gains for Workers?

Workers in industrializing East Asia have gained enormously from a pattern of development based on rising international engagement through trade, technology, and capital. But only a small fraction of the region's workers have traversed a path to affluence or even to upper-middle-income status. With a broader, deeper, and perhaps faster integration now under way, new issues—and new fears—come to the fore. Can the enormous groups of low-wage workers in China and elsewhere be absorbed smoothly into the international structure of production, or will other low-skill workers, including those in middle- and high-income economies, lose out? Will mobile capital flow to areas where workers are paid least—and treated worst—and should sanctions on trade or capital flows be used to promote better working conditions? Can the higher-income countries upgrade their labor forces and avoid rising unemployment and inequality? Is migration a source of gains for migrants and native workers or a means for unscrupulous employers and middlemen to exploit cheap, and often illegal, foreign workers at the expense of natives?

A new phase of integration

When the Republic of Korea and the other East Asian tigers (Singapore, Hong Kong, and Taiwan, China) were entering international trade in the 1960s and 1970s, they were tiny players on the scene. Their combined workforce constituted no more than about 1 percent of the global workforce (as it still does). After several decades of extraordinary growth, they now account for about 2 percent of the world's total industrial employment and 7 percent of trade in goods.

The world is now in the midst of a new wave of international integration, and East Asia is an important leader. The region accounts for 35 percent of the world's industrial workers, much more than in high-income OECD economies (Table 5). Many other East Asian economies were segmented from international interactions in the past, but this is fast changing. Indonesia, Malaysia, and Thailand are now substantially open to international markets. China's coastal regions are increasingly integrated, and the rest of the country is following their lead. Further west, South Asia's workers—another 13 percent of the global industrial workforce—are also starting on the road of deeper international integration. The collapse of the Soviet system is leading to the opening to trade of a large, relatively skilled workforce in the formerly centrally planned economies of Europe and Central Asia—at much lower wages than in the mature industrialized economies. When exports from lower-wage countries shift from being a marginal part of world trade to a significant part, the effects will be profound.

China is an important part of the story. It has already demonstrated extraordinary success in entering world trade, boosting its share of trade in manufactures from less than 1 percent to a little more than 2.5 percent between 1978 and 1995. It also has effectively managed to apply the organizational and quality requirements for successful trading, thanks in large measure to overseas capital, most of it from Hong Kong and Taiwanese sources. A 1995 international survey of consumers

<table>
<thead>
<tr>
<th>Region</th>
<th>Industrial workers</th>
<th>All workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia</td>
<td>35</td>
<td>39</td>
</tr>
<tr>
<td>High-Income OECD</td>
<td>21</td>
<td>15</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>16</td>
<td>10</td>
</tr>
<tr>
<td>South Asia</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Latin America</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Rimer 1996.
on the perceived quality of exported goods ranked China eighth in the world, just behind Italy but ahead of Spain and the Republic of Korea (Bozell-Gallup Worldwide Quality Poll 1995). Yet industrial wages were only $24 dollars a month in 1993, and behind the industrial workers lies a huge supply of some 450 million rural workers with nominal incomes less than half urban incomes. Many observers contend that there is a large rural labor surplus, held back in part by migration costs and controls. The combination of an enormous pool of low-wage labor increasingly capable of producing manufactured goods for export raises fears in middle- and high-income countries alike of a takeover of world trade by low-wage economies.

Rising integration of labor-intensive giants
Growing international trade is being supported by international accords—most notably the Uruguay Round of the General Agreement on Tariffs and Trade (GATT)—and trade liberalization by individual countries. Direct measurable effects of the Uruguay Round agreements are small (Box 2). But the small measured effects seem to miss the point. The potential gains from participation in world markets are immense, both through the dynamic advantages of trading and through the removal of the constraint of domestic demand on production. The Uruguay Round has improved opportunities for almost all countries, but the real gains will come when countries take action that allows the organization of production and investment to make use of these opportunities. China and others are doing that, and the effects of their opening are likely to be large.

Yet economies at all income levels fear what they perceive as the consequences of a global economy transformed by the entry of labor-intensive giants like China. Other low-income economies fear losing market shares to new entrants; middle- and high-income countries wonder whether their wages must fall as their workers are forced to compete with workers whose wages are only a fraction of theirs. It is true that competition from new entrants into world markets will necessitate adjustments in many economies and that some workers will be hurt by these changes. But most fears about the consequences of increased world trade reflect a failure to understand the nature of international exchange.

The historical pattern of production and trade is one of workers in different countries shifting into activities that correspond to each country's factor endowments—of labor, skills, capital, and natural resources—relative to those of other countries. Thus, for example, the higher the ratio of skills to land in a country, the more it exports manufactures relative to raw materials (Figure 7). As economies grow and deepen their skills, technological capabilities, and physical capital, they shift up the international ladder of production. Wages and productivity rise in tandem with these shifts.

No region better illustrates these outcomes than East Asia. The Republic of Korea, for example, has climbed up a significant part of the international ladder of production in the past thirty years as it has realized enormous expansion in physical and human capital. As a result, Korea's workers have reaped spectacular increases in earnings and employment opportunities. Malaysia also has undergone a radical shift from a natural resource-based economy to one increasingly oriented toward skill- and capital-intensive manufacturing. Economywide, Malaysia's workers, like those in Korea, have been significant beneficiaries of these developments.

Even if the international division of labor reflects the international pattern of resources and skills, there remains the question of whether particular countries or groups of workers may be hurt by the expansion of China or other economies into international trade. We look briefly at the condition of workers in industrial countries and then discuss other East Asian workers.

Should workers in industrial countries worry?
There is widespread concern in industrial countries about their employment situation, which is typified by rising inequality in Australia, Canada, the United Kingdom, and the United States and a persistent high unemployment in Europe (World Bank 1995a). There is no question that part of the problem lies in the shift in demand against unskilled labor. However, most observers attribute some of the shift to rising trade with low-wage countries, only extreme assumptions will generate large effects: for the United States most estimates attribute 10–30 percent of the rise in inequality to trade and the remainder to technological progress that has reduced the demand for unskilled labor. Recent modeling work that focuses on the effects of East Asian expansion also finds that the bulk of changes in richer countries is due to technological change, not rising trade with East Asia (McDougall and Tye 1995).

Despite this evidence and because of the persistence of employment problems in OECD countries, it is not surprising that the costs of rising global trade have received more attention than the benefits. Benefits include lower prices for the goods that workers in industrial countries buy. In the United States, for example, imports, mostly from East Asia, have lowered the prices of footwear and apparel by more than 20 percent in real terms over the past decade. Growth and rising incomes abroad also raise the demand for OECD exports and provide jobs in the higher-value, higher-wage industries in which industrial countries have a comparative advantage.

If on net workers in industrial countries stand to gain from increased integration, it is also true that some workers, especially those with few skills, will lose. The depressed conditions in communities that long relied on footwear, shipbuilding, and
WILL INTERNATIONAL ENGAGEMENT BRING RISING GAINS?

Box 2. Effects of the Uruguay Round on East Asia

The Uruguay Round involved changes in three areas of significance for East Asia's workers: liberalization of trade in manufactures, liberalization in agricultural trade, and improvements in the security of market access. The effects of these changes are complex, but in general the international benefits of stimulating the once effects of the Uruguay Round have been made more profitable, and out of those made less profitable.

On average, tariffs on developing country exports will fall 30 percent. For East Asia they will fall from about 8 to less than 6 percent and — more important — the coverage of non-oil exports by OECD non-tariff barriers will fall from about 20 percent to less than 5 percent. The Multilateral Arrangement, which involves managed trade in garments and textiles, will be phased out by 2005, leading to losses of quota preferences for East Asian newly industrialized economies and gains in access for the Association of Southeast Asian Nations (ASEAN) countries and China. Employment could rise significantly in textiles and garments in ASEAN and China and fall in the newly industrialized economies. With the loss in preferential treatment, the new liberalized terms will be $6.2 billion (and $9.2 billion) while ASEAN would gain 4.6 billion (and China $5 billion).

Wages will rise but employment will shift with the liberalization of manufacturing and agricultural trade

<table>
<thead>
<tr>
<th>New industrialized economies</th>
<th>0.5%</th>
<th>0.2%</th>
<th>0.1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td>increase</td>
<td>decrease</td>
<td>increase</td>
</tr>
<tr>
<td>China</td>
<td>increase</td>
<td>increase</td>
<td>increase</td>
</tr>
</tbody>
</table>

These are the results of modeling work using a computable general equilibrium analysis that assumes full employment and capital and labor moving into the most profitable activities. The analysis, like any modeling exercise, is only indicative, but it illustrates three points: trade opening will lead to structural shifts in employment with richer East Asian economies moving out of labor-intensive goods and agriculture into global markets; all East Asian economies stand to gain from trade liberalization, with part of the gain coming from lower import prices, but the increases estimated from such a static analysis are small — less than 1 percent of gross domestic product, and economic structures seem more competitive than complementary to those of China. Do expanding Chinese exports come at the expense of countries such as Indonesia, the Philippines, or Vietnam, which for the moment offer their workers similar or somewhat higher wages? The fears are largely misplaced, but there is a kernel of truth—and one with important policy implications.

Should other East Asian workers worry?

At first glance the situation is different in other low-wage Asian economies. In Indonesia, for example, unskilled workers are increasingly in tradable manufactures sectors. Incomes and economic structures seem more competitive than complementary to those of China. Do expanding Chinese exports come at the expense of countries such as Indonesia, the Philippines, or Vietnam, which for the moment offer their workers similar or somewhat higher wages? The fears are largely misplaced, but there is a kernel of truth—and one with important policy implications.

China (and other large, labor-intensive producers) can influence conditions elsewhere either through rising productivity or through the entry into world production of workers previously excluded from the global economy.
Involving Workers in East Asia’s Growth

Rising productivity of workers can have two effects. It can lead to rising returns to wages and capital within the country enjoying the productivity increase. In China labor productivity in manufacturing rose 75 percent and wages 36 percent between 1985 and 1993. Or it can lead to falling prices for the goods exported.

Rising entry of Chinese workers, previously excluded from even indirect international exchange, raises the global supply of unskilled labor. To the extent that there is a large rural labor surplus that is partially integrated with international markets, there could be more of this process ahead. Other things being equal, this will tend to lower international prices in the goods Chinese workers produce. Because Chinese wages are near the bottom of the international hierarchy, this will tend to depress wages for unskilled workers in other countries.

It is the potential fall in the prices of labor-intensive goods that could hurt workers in other countries. However, this risk has to be offset against two other effects already introduced in the discussion of industrial countries. First, cheaper labor-intensive goods bring benefits to the workers that consume them—they are often wage goods. And second, when China exports more, it also imports more. Both effects might apply with more obvious force to trade with industrial countries, whose workers consume more toys or electronic goods produced in China and are more likely to be producing the capital-intensive goods benefiting from East Asia’s growth. But simulation of the effects of rising Chinese productivity on other East Asian countries finds gains, not losses (Martin 1993).

Analysis of the effects of an Asia-Pacific Economic Cooperation (APEC) free trade area find mutual gains dominating any losses (Lewis, Robinson, and Wang 1995). If trade is liberalized (by 2020) among all the members of APEC, all economies gain, with growth in exports of 4 percent for China and about 6 percent for the four major Association of Southeast Asian Nations (ASEAN) economies (Indonesia, Malaysia, the Philippines, Thailand), the Asian newly industrialized economies (Republic of Korea, Singapore, and Taiwan, China), and Japan. Reduced protection induces shifts of labor that are especially marked for the Asian newly industrialized economies and Japan, which currently provide high protection for grain production. All of these groups experience rising employment in textiles and apparel, though with different production technologies for low- and high-wage producers (Table 6). So far, these results parallel those for the overall liberalization of world trade called for by the Uruguay Round (indeed, the gains are even larger in the event of full multilateral trade liberalization).

Of particular relevance, however, is the effect of excluding either China or ASEAN from a free trade area. Doing so substantially reduces the gains for the excluded economies, but it also slightly hurts those still within the free trade area. For example, real GDP in the four large ASEAN economies rises 4.7 percent with a full free trade area, 4.2 percent when they participate but China is excluded, and 0.2 percent if China participates but the ASEAN four are excluded.

Results of macroeconomic simulations need to be treated with caution, but they do illustrate how expanding trade can help all countries—and their workers—once the complex interactions are accounted for. This is at least consistent with empirical trends. Chinese exports—mainly in labor-intensive goods—grew 11 percent a year between 1981 and 1993. At the same time there is evidence of increases in unskilled wages (and exports) in most East Asian economies from the early 1980s to the 1990s, including Indonesia, Malaysia, the Philippines, and Thailand.

Helping to fuel these wage increases is trade among East Asian economies. Exports from Malaysia to China have been booming (Figure 8). Overall, regional trade is becoming an important engine of growth in exports and output. For all of East Asia and the Pacific (including Japan), intraregional trade increased from 33 percent of the region’s trade in 1980 to 44 percent in 1994. Assuming that the region’s GDP growth rates remain robust, by the turn of the century intraregional trade will easily dominate import and export activity with other regions and will help fuel rising labor productivity and average wages.
Will International Engagement Bring Rising Gains?

An APEC free trade area would lead to employment shifts within East Asia.

### Table 6. Changes in employment in selected sectors following introduction of free trade in APEC

<table>
<thead>
<tr>
<th>Sector</th>
<th>ASEAN four</th>
<th>Newly industrialized economies</th>
<th>China</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grains</td>
<td>0.0</td>
<td>-27.8</td>
<td>-0.3</td>
<td>-22.4</td>
</tr>
<tr>
<td>Other agriculture</td>
<td>0.0</td>
<td>9.9</td>
<td>0.2</td>
<td>8.0</td>
</tr>
<tr>
<td>Forestry and fishery</td>
<td>0.0</td>
<td>25.5</td>
<td>-0.2</td>
<td>17.0</td>
</tr>
<tr>
<td>Energy and minerals</td>
<td>-4.5</td>
<td>-2.1</td>
<td>-0.9</td>
<td>1.5</td>
</tr>
<tr>
<td>Food processing</td>
<td>-2.2</td>
<td>19.6</td>
<td>-1.3</td>
<td>5.4</td>
</tr>
<tr>
<td>Textiles and apparel</td>
<td>11.2</td>
<td>14.4</td>
<td>3.7</td>
<td>2.6</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>10.7</td>
<td>1.2</td>
<td>0.0</td>
<td>1.7</td>
</tr>
</tbody>
</table>


### Mobile international capital

The international allocation of capital responds both to the structure of production and trade and to shifting international macroeconomic conditions. Both affect workers. Foreign direct investment is most strongly associated with the equipping of workers with more and better machines, technology, and skills. Portfolio investment is more responsive to macroeconomic conditions or sentiments, but significant flows also affect workers through the impact on aggregate economic conditions—as seen in 1995 in Mexico.

As emphasized in World Development Report 1995, in a world of mobile capital sound policy gets richly rewarded, and uncertainty, whether from political troubles or economic mismanagement, gets powerfully punished. The rewards and penalties can be quick, as with the movement of portfolio flows, or slow, as with changes in foreign direct investment flows. Sound macroeconomic policy has been a hallmark of most East Asian economies, and the region has been attractive to foreign direct investment. Thus East Asian workers have been less susceptible to the harmful effects of volatile flows than have workers elsewhere.

Is there a threat of capital abandoning workers in one country for cheaper labor elsewhere, fostering a race to the bottom in wages and working conditions? Some shifting of capital to cheaper locations certainly occurs. Wages are a factor in the allocation of foreign direct investment (Lucas 1993), and fears of a “hollowing out” of companies (moving manufacturing activities offshore and leaving only limited employment in marketing, product development, and related services in the home country) are widespread in Japan and present in Singapore. But in practice this is unlikely to be a source of downward pressure on either wages or working conditions.

Despite huge differences in wages, foreign direct investment is still going to low- and upper-middle-income economies alike (Table 7).

Capital will indeed move to more profitable locations. When a new country or region opens up, capitalists are ready to seize unexploited opportunities. There are many examples of firms shifting production from Japan to the ASEAN countries and from Hong Kong to Guangdong, China (Box 3). But cases of net outflows of foreign direct investment as a consequence of shifts to lower-wage locations are limited to countries near the top of the hierarchy, such as Japan and the Republic of Korea, where it is a sign of the success of past development strategy.

Malaysia illustrates the changing pattern of foreign capital involvement when conditions are conducive to foreign investment. Malaysia has had large wage increases, but foreign direct investment has continued to flow in. And because of these capital flows productivity has risen as skills and capital per worker deepened and industrial and organizational capabilities expanded. This experience illustrates that the key determinants of investment flows are the overall investment environment and wages relative to productivity, not low wages alone.

The major new development in foreign direct investment in the region has been the rise in flows from within the region, mainly from the international Chinese business community and from Korean entrepreneurs. The bulk of the extraordinary surge in investment into China was from Hong Kong and Taiwanese sources. Nearly two-thirds of flows into Vietnam in the early 1990s were from the newly industrialized economies of East Asia, primarily from overseas Chinese or Korean sources. Malaysia and mainland China are also becoming sources of outward investment. These flows represent a major...
Table 7. Foreign direct investment flows to selected East Asian countries, various years

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea, Rep. of</td>
<td>7.660</td>
<td>234</td>
<td>788</td>
<td>809</td>
</tr>
<tr>
<td>Malaysia</td>
<td>3.140</td>
<td>695</td>
<td>2,333</td>
<td>4,348</td>
</tr>
<tr>
<td>Thailand</td>
<td>2.110</td>
<td>163</td>
<td>2,444</td>
<td>840</td>
</tr>
<tr>
<td>Philippines</td>
<td>850</td>
<td>12</td>
<td>530</td>
<td>1,000</td>
</tr>
<tr>
<td>Indonesia</td>
<td>740</td>
<td>310</td>
<td>1,093</td>
<td>2,109</td>
</tr>
<tr>
<td>China</td>
<td>490</td>
<td>1,659</td>
<td>3,487</td>
<td>33,787</td>
</tr>
<tr>
<td>Vietnam</td>
<td>170</td>
<td>0</td>
<td>16</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: World Bank data.

force for the combining of capital, entrepreneurial capabilities, and labor in the region and are an important source of growing wages and employment opportunities in the region.

Concerns remain that capitalists will exploit workers desperate for work, or that countries will gain international competitive advantage by tolerating poor or exploitative standards. This is undoubtedly a concern for domestic policy, and we discuss it in Chapter 4. But we argue here (as in World Development Report 1995) that dealing with these concerns through links with official international agreements is a poor and potentially counterproductive approach (Box 4).

Managing structural shifts: Upgrading and inequality

East Asian economies have demonstrated that there are enormous gains to workers from openness to trade and capital. Realizing these gains requires shifts of workers from low- to high-productivity activities and the destruction and creation of jobs, which is at the core of the process. As the pattern of comparative advantage changes, better-off economies have to move up the ladder. Some hit labor shortages—as Malaysia did in the mid-1990s. There are often fears of rising inequality, either because the demand for skilled workers races ahead with shifts in demand or because unskilled workers get left behind.

A broadly based expansion of skills is the key to avoiding rising inequality. With the desirable structural transformation induced by trade-based growth, there is a steadily rising demand for skills and a commensurate demand shift away from unskilled labor. What happens to inequality depends on the balance between the relative shifts in the supply and demand of different categories of labor. In the Republic of Korea the growth in the supply of educated workers over the past three decades exceeded the growth in demand, inducing significant reductions in wage differentials (Kim and Topel 1995); this also appears to have been the case in Indonesia since the early 1980s. In Thailand, which has trailing other Asian economies in secondary school enrollments, industrial takeoff into world markets was associated with rising wage inequality. Malaysia enjoyed steady declines until recently, when the relative wages of university graduates rose significantly, in part because of restrictions on the expansion of private universities.

Improving skills is an area in which countries need to keep running to stay ahead. That East Asia is well positioned internationally is the fruit of its past investments in education. And the share of the working age population with secondary and tertiary schooling is projected to rise substantially between 1995 and 2010 (Figure 9). There are important differences within East Asia, however. A third of the Republic of Korea’s potential labor force will have a tertiary education by 2020, but only a tiny fraction of China’s will. Thailand will continue to have an unusually low stock of secondary school graduates in its labor force.
These trends underline the importance of steadily expanding education and training and improving their quality. They also point to the need for flexible skills and for education policies that include population groups potentially left out. With the rising importance of industrial production and trade, training for the workplace would also seem to be of growing significance. But increasing training to upgrade the skills of the workforce does not necessarily imply expanding public provision. In general, evidence suggests that public efforts and resources are best devoted to expanding and improving schooling systems, while leaving the bulk of training to on-the-job efforts by firms or private action. In Malaysia 60–90 percent of firms in a survey indicated that they did their own training rather than rely on public training institutes (Box 5).

Managing international migration for mutual gain

East Asia is one of the world’s growth areas for international migration. Indonesian workers go to Malaysia, Myanmar workers to Thailand, and Chinese workers to Hong Kong. The region has not traditionally been a high migration area. The total stock of migrants was estimated at 7.5 million people in 1985 (United Nations 1994). Even excluding China, this represented a foreign-born population of 1.2 percent in 1985 (down from 1.9 percent in 1965), less than South Asia’s 1.8 percent and much less than Africa’s 2.7 percent, Europe’s 4.7 percent, and North America’s 7.8 percent.

But migration appears to be on the rise in the region, as booming economies run into labor shortages and draw cheaper labor from other countries. This shortage has especially affected construction and service employment, including domestic services. Female workers are an especially important part of this trend and in some countries account for more than half of migrant flows. As noted in Chapter 1, large differentials in wages persist and feed pressures for such international movement. One of the major migration movements of the world is that within China, which parallels international migration to the extent that population movement is restricted through control of residency rights.

International migration can bring large benefits to both sending and receiving economies. Often workers who move enjoy enormous increases in wages: migrant construction workers in Taiwan, China, earn some four times what they could earn in Thailand or the Philippines (Far East Asian Economic Review, 25 May 1995). These higher earnings often return to the migrant’s country of origin in the form of remittances. At the micro level remittances can raise members of the migrant’s nuclear or extended family out of poverty or provide investment capital for family farms or enterprises. At the macro level remittances can be an important source of foreign exchange; in the Philippines in 1994 remittances amounted to more than 20 percent of export earnings and 4 percent of GDP (ILO/UNDP 1996).
Education levels of East Asia's workforce will rise, but at very different rates in different countries.

Figure 9. Projections of the educational composition of out-of-school populations in various East Asian economies, 1985–2020.

(percentage of population in respective educational attainment group)

Source: Ahuja and Fliner 1995.
Receiving countries in East Asia increasingly depend on migrant labor in construction, plantation agriculture, domestic services, and even manufacturing. Migrants already make up 10–20 percent of the labor force in Hong Kong, Malaysia, and Singapore (Martin and Widgren 1996). Migrants tend to complement rather than substitute for natives, taking on jobs spurned by domestic workers. In the Republic of Korea and Japan, where migrant labor constitutes less than 1 percent of the labor force, overseas workers are engaged in activities that the domestic workforce shuns—the 3-D jobs, low-paid work that is dirty, dangerous, or (physically) difficult.

Migration across borders also entails costs and raises more emotive issues than does trade in goods. In some receiving countries there is fear that migrants will hold down the wages of natives, especially those that are unskilled; that they will pose a costly drain on public services; and that they will be sources of social and cultural conflict. Sending countries worry about the impact on families when adult members, often mothers or fathers or both, are absent for extended periods. Also disturbing is the exploitation of migrants by ruthless agents and employers (more common when migration is illegal). Young women can be particularly vulnerable, especially when they are working in individualized situations, such as maids. There also is evidence in many parts of the region that young girls who migrate are at risk, perhaps in... usually so, of forced prostitution (Human Rights Watch 1993).

Because of the mixture of costs and benefits of migration receiving countries the world over seek to control the flow of labor across their borders—and to a substantial degree they succeed. Illegal migration exists, and sometimes is larger than legal movements, but the existence of massive wage differentials makes managing migration difficult and costly.

For the region uncontrolled migration would almost certainly be poverty-reducing. But just as certainly controls will continue to be common. Nation states choose whom they want to be a part of their social groupings, and even temporary migrants, with limited rights, become part of the social fabric. Individual governments assess the benefits and costs, including the enforcement costs, of alternative immigration policies and act accordingly (Box 6). But regardless of the immigration strategy chosen, there remains a need to create institutions that disseminate accurate information about migrant employment opportunities and that protect the human rights of workers when they no longer fall under the protection of their country of citizenship.

Workers in different parts of the world are becoming increasingly interconnected. More and more East Asian workers are participating in this process. Within East Asia and even more so outside it, there are fears of the adverse effects of the entry of low-wage giants, most of all China. These fears are largely unfounded, and the engagement of these economies in world markets increases opportunities for others. But these opportunities will be realized only if domestic policies are sound. In a more technologically dynamic and integrating world, many countries, rich and poor, face the challenge of upgrading their education and training systems and of supporting relocation of workers.

**Box 6: Immigration policy in Singapore**

Singapore has explicit policies to discourage the settlement of skilled foreign workers and to prevent local employers from becoming dependent on them. Female migrants are subjective to pregnancy tests and possible restrictions on movement. Migrant workers also face penalties for violating immigration law.
Labor Policies, Labor Institutions, and Workers' Welfare

Along with integration with world markets, domestic labor market policies have played a role in promoting a labor-absorbing pattern of growth in East Asia. Governments in the market economies of the region have relied primarily on markets to determine wages. They have avoided minimum wage laws, monopolistic labor unions, and other wage-setting institutions that might have led to a less labor-intensive pattern of growth and to greater inequalities in the sharing of the benefits of growth between workers employed in formal and informal sectors.

The lives of workers in East Asia have improved dramatically in recent years, but many problems remain that require government interventions. These include exploitative child labor, discrimination against women, poor working conditions (including low and unenforced occupational health and safety standards and long working hours), repression of independent trade union activity, and an absence of any social security or safety net, except for a few formal sector workers. These problems are common, though to varying degrees, to all the low- and middle-income economies of the region, and appropriate labor market policies and regulations are needed to deal with them.

Despite rapid industrialization and urbanization, nonwage workers employed in informal enterprises or engaged in rural activities account for more than 80 percent of the workers in low-income countries such as China and more than 40 percent of those in middle-income countries such as the four large ASEAN members. The pattern of economic development is likely to have the greatest impact on the welfare of these workers, who are generally outside the reach of government regulations.

Even though most East Asian workers fall outside the reach of labor regulations, appropriate labor regulations are still needed. Formalization is important for development and growth, so labor market policies that discourage the expansion of the formal sector should be avoided. Moreover, some labor policies, such as public works programs, can have a direct effect on informal and rural sector workers. And some labor market policies and regulations, including formal mechanisms of social security, also have a significant impact on the welfare of workers in the formal sector.

The most common government interventions include bans on child labor, protection of women and minority workers, workplace safety and health standards, minimum wage regulations, and guarantees of freedom of association and organization.

Banning child labor
Child labor covers a wide range of activities to which the ethical, economic, and legal responses could be very different (Grootaert and Kanbur 1995). In order to define a policy toward child labor, both the nature of the work and the nature of the relationship between the child and the employer must be considered. Children helping out on their parents' family farm are a very different concern from children engaged in factory work or prostitution (Box 7).

A key concern is whether the arrangement is exploitative. In the extreme child labor can take the form of bonded labor or quasi-slavery. In some cases a debt incurred or cash payment received by the parents is the "bond," and the child is forced to work toward its repayment. Other aspects of child labor that can be considered exploitative are working at too early an age, working too many hours, or engaging in activities that put excessive physical, social, or psychological strain on the child and hamper the child's physical or emotional development.

While none of the economies in the region has ratified the International Labor Organization (ILO) Convention (No. 138) that stipulates a minimum age of employment, most have national laws against child labor (World Bank 1995c). But since a large number of child laborers in developing countries are employed in rural areas, often as unpaid helpers on the family farm, such laws are difficult to enforce.

National legislation and conventions banning child labor have symbolic value as an expression of society's desire to eradicate this practice. But they cannot deliver results unless they are accompanied by measures that shift the balance of incen-
Box 7. Some forms of child labor are considered more harmful than others.

Truyen, helping out on the family farm in Vietnam. Truyen is nine years old and has three younger siblings. His mother and his parents live several hours southwest of Hanoi in Ha binh province, a poor agricultural region. Truyen's family is poorer than most of their neighbors. Truyen's father is not employed to help but in school, his studies need help in the family small farm. In return, Truyen carries out mundane work using the animal to earn some extra cash. Even if Truyen's labor time were not needed, he still might not attend school because school fees and the fees are beyond the family's means, and for the past several months the school has been empty. Raising salaries in urban areas have made it difficult to recruit teachers in this rural school.

Lin Lin, a Burmese child working in a laundry in Thailand. Lin Lin was thirteen years old when she was recruited by an agent for work in Thailand. Her father took 5400 baht from the agent with the understanding that her daughter's education and the loan back out of her earnings. The agent took Lin Lin to Bangkok, and the omen that he was taken to the Run Der Prom brothel. From 1992 to 1995, the number of the Burmese child paid in the brothels, which Lin Lin worked, and she was taken to the brothels run by a local non-governmental organization. She was thirteen years old, and spent two years of her young life in compulsory prostitution and tested positive for the human immunodeficiency virus (HIV).

A number of governments in the region have acknowledged the use of child labor in their countries and have established programs to eradicate this practice. In Indonesia, for example, an estimated 2.3–2.9 million children between ten and fourteen years of age work in the industrial and informal sectors, in factories and on the streets (Goderbauer and Trenies 1995). According to these estimates one of every ten children in this age group is working, excluding children working on farms. The government of Indonesia recognizes child labor as a continuing problem and several years ago agreed with the ILO to carry out a pilot project on behalf of the International Program for the Elimination of Child Labor (IPEC). In collaboration with local nongovernmental organizations (NGOs), the project aims to increase the government's capacity to develop and carry out programs that effectively protect working children and eventually to abolish child labor.

Other countries in East and South Asia are also making efforts to tackle the problem. In 1999 India and Thailand joined the IPEC, followed in 1994 by Bangladesh, Pakistan, and the Philippines. Furthermore, usually under pressure from international communities, government efforts to eradicate child labor are being supplemented by other measures. In Bangladesh, for example, following an active campaign by international and local NGOs, garment manufacturers approved a plan in June 1995 to end child labor in their industry by working with two United Nations organizations. The ILO will monitor compliance with the accord, which will remove child laborers from their jobs, and the United Nations Children's Fund will help the industry pay for the children's education. This approach, which provides financial incentives to encourage poor families to edu-
cated their children instead of making them work, is likely to have a higher payoff in the long run than an approach based on sanctions alone.

Cooperation between local communities, NGOs, and governments should be encouraged. An example of such cooperation involves the deep-sea fishing industry on the Philippine island of Cebu. Large numbers of young boys were being hired as divers in an extremely dangerous occupation called Muro-ami fishing. The local community took no action against this practice because parents had no other way to sustain their families. The initiative for change came from national civic groups based in Manila, which applied pressure on the government and mobilized the community to establish a Muro-ami task force. Under pressure, employers agreed not to recruit boys younger than eighteen years old. To obtain the community's support, and especially that of the children's families, priority was given to creating alternative sources of income through soapmaking, weaving, and pig-rearing projects and the extension of soft loans and training to the boys' mothers.

Sometimes efforts to eradicate child labor in developing countries have been initiated because of pressure from social activists and consumers in the West, who have protested against buying manufactured goods from countries using children to produce those goods. Examples of these cases abound in South Asian countries, in particular in the carpet industries of India and Pakistan and the garment industry of Bangladesh. Some activists have urged their countries and the World Trade Organization to impose trade sanctions to stop child labor. While some international pressure might be useful to attain "core standards," which include eliminating exploitative forms of child labor, linking these standards to international trade agreements may be counterproductive (see Box 4).

**Standards affecting working women**

Women in East Asia are involved in a variety of work, in both the informal and formal sectors. In a wide range of labor-intensive industries in the region—including textiles, garments, footwear, shrimp processing, and cigarette rolling—the majority of production workers are women. The work is usually low-skilled, poorly paid relative to the work of men, and often exposes women to various hazards. Governments in the region have enacted standards to improve the lot of women workers. One type of standard provides women with special rights and protections in the workplace because of their role in bearing and raising children; maternity leave is an example. Another type of standard seeks to end discrimination in the labor market by establishing equal pay for work of equal value or prohibiting the exclusion of women from certain jobs.

**Workplace protection for women**

Nearly all economies in the region have legislation establishing standard periods of maternity leave and other special working conditions for women. Other common protective standards include limitations on night work and on working in certain hazardous places, such as mines and pits. Such legislation usually requires employers to comply, effectively increasing the cost of hiring women. So, while there are some gains to the women who receive these special protections, there also is a risk that legislation aimed at protecting women will end up depressing their wages or discouraging the employment of women.

In many economies employers often fail to meet government legislated standards. Very often, women workers, who are over-represented in the informal sector (Table 8), are so eager for jobs in the modern sector that they willingly ignore this failure. Many are not even aware that standards exist. There are also ample documented cases of women being fired because of marriage, pregnancy, or childbirth. Thus, while the special leave legislated for women provides benefits to some female employees, others are left open to abuse and discrimination by employers.

**Anti-discrimination policies**

Labor markets in most economies of the world, industrial and developing, discriminate against women. East Asian labor markets are no exception. Women usually earn less than men, partly because they work in jobs that pay less, but partly because they earn less than men doing the same types of jobs. Furthermore, the differences in male and female earnings in similar occupations cannot be fully accounted for by differences in education or work experience.

Standards designed to protect women from job discrimination are often difficult to enforce. This does not mean that governments should give up their efforts to end discrimination in the workplace. But the focus of these efforts needs to change, with greater emphasis on policies to improve women's access to modern sector jobs. In many East Asian economies evidence indicates that these disparities tend to narrow over time.

**Table 8. Shares of men and women in nonwage employment**

(percentage of total)

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>1989</td>
<td>70</td>
<td>79</td>
</tr>
<tr>
<td>Korea, Rep. of</td>
<td>1991</td>
<td>38</td>
<td>43</td>
</tr>
<tr>
<td>Thailand</td>
<td>1989</td>
<td>71</td>
<td>76</td>
</tr>
</tbody>
</table>

although huge disparities still remain between male and female earnings (Table 9). Evidence for East Asia also indicates that most of the increases in the relative earnings of female workers have been due to changes in employment and wages in the manufacturing sector.¹⁶

Evidence from many countries indicates that despite the frequent failure of employers to comply with government-mandated protections for female workers, they are usually better off with jobs in the modern sector than without them—their wages, although low by formal sector standards, are more than double what they could earn in the informal sector or in rural areas. Perhaps more important, having a stable source of income can change their status within the household and provide them with a greater say in the allocation of household expenditures.

Women gain much more from better access to modern sector jobs than from special standards to protect those who already have good jobs. Governments can advance the position of women by improving their access to education, since in many countries a key difference between formal and informal sector workers is that the formal sector workers have had some secondary education. Improving women’s access to secondary education is likely to improve their probability of getting a job in the modern sector and, therefore, more likely to improve their lives than are high government-mandated benefits. One way governments can combat workplace discrimination is through gender-neutral public employment policy. And if governments choose to mandate special protections or benefits for women—like maternity leave—they should do so in ways that reduce the risk that female wages or employment opportunities will decline. This can be done by financing such protections through general revenues (or payroll taxes) rather than having individual firms bear the full burden. Even this approach, however, if it raises labor costs in the formal sector, runs the risk of financing protection for female workers in the formal sector at the expense of poorer women and men engaged in rural and informal work.

### Safety and health standards

Workers often encounter health risks on the job. For workers in agricultural and informal sectors where legislated labor standards are ineffective, societies try to improve health and safety conditions through policies aimed at improving the general environment in which they work rather than through labor legislation. For formal sector workers nearly all countries legislate minimum safety and health standards. These standards are usually justified on grounds that employers are aware of workplace dangers but workers may not be, and even when workers are aware of occupational risks they may accept dangerous jobs because they have few if any alternative employment opportunities.

As with other government-legislated standards, enforcement is often a problem, particularly in the small and medium-size enterprises typical of East Asia. A survey of health and safety conditions in the Philippines found that 81 percent of inspected establishments violated one or more standards. In many countries enforcement is so weak that employers have little incentive to comply. Labor departments often lack the personnel and equipment for regular inspections, and the inspections that do occur sometimes become occasions for collecting bribes rather than enforcing the law. In 1984 there were only fifty staff members assigned to conduct inspections and enforce labor standards in all of metropolitan Manila, covering nearly 30,000 enterprises. Aware of these problems, the government dramatically increased the number of labor inspectors and inspections. Several thousand Filipino workers are reported to have benefited from subsequent corrections.

Because developing countries have limited administrative capacity to monitor compliance, they need to focus this capacity where it will do the most good. For example, standards on the accessibility of fire escapes are simple to develop and monitor. Tragedies such as those described in Box 8 might have been avoided if those standards had been enforced.

### Women’s access to modern sector jobs tends to narrow the gender gap in earnings

**Table 9. Ratio of female to male earnings in selected East Asian countries, various years (percent)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Female/male wage</th>
<th>Year</th>
<th>Female/male wage</th>
<th>Gross change</th>
<th>Annual change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea, Rep. of</td>
<td>1984</td>
<td>41.9</td>
<td>1988</td>
<td>51.0</td>
<td>21.7</td>
<td>5.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1973</td>
<td>56.8</td>
<td>1984</td>
<td>69.3</td>
<td>22.0</td>
<td>1.8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1988</td>
<td>55.6</td>
<td>1992</td>
<td>60.0</td>
<td>8.1</td>
<td>1.3</td>
</tr>
<tr>
<td>Philippines</td>
<td>1978</td>
<td>70.9</td>
<td>1988</td>
<td>80.0</td>
<td>12.8</td>
<td>1.2</td>
</tr>
<tr>
<td>Thailand</td>
<td>1980</td>
<td>73.5</td>
<td>1990</td>
<td>79.8</td>
<td>6.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Japan</td>
<td>1982</td>
<td>43.1</td>
<td>1991</td>
<td>42.9</td>
<td>-0.01</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Involving Workers in East Asia's Growth

Minimum wages

Whether to set a minimum wage remains one of the most controversial labor policy issues. Proponents believe that appropriately applied minimum wage legislation can raise the incomes of the most poverty-stricken workers at little or no cost to overall employment. Opponents argue that minimum wages make things worse for poor workers by raising production costs in the formal sector and reducing employment. More workers are then forced to seek jobs in the unregulated informal sector, pushing the wages of the working poor lower.

Although minimum wages might be an effective tool to protect the most poverty-stricken workers in industrial countries, they clearly will not do that in the developing economies of East Asia. The bulk of the poor in such economies operate in rural and informal markets and are not protected by minimum wage legislation. The workers whom minimum wage legislation tries to protect—urban formal workers—already earn much more than the less favored majority. And to the extent that minimum wage and other regulations discourage formal employment by increasing wage and nonwage costs, they hurt the poor who aspire to formal employment. Thus it is difficult to argue for minimum wages in the low- and middle-income economies of East Asia on equity grounds.

Policymakers in East Asian economies traditionally have relied on policy tools other than minimum wages to alleviate poverty or raise the wages of formal sector workers. The four newly industrialized economies of Asia—Hong Kong, Republic of Korea, Singapore, and Taiwan, China—had higher wage and employment growth than elsewhere in the world during the 1960s and 1970s. Institutional forces that can cause higher-than-market-clearing wages—minimum wage laws, trade unions, government pay policy, and multinational corporations—were found not to have interfered with market wage setting in these countries (Fields 1994). In particular, although some of them had minimum wage laws on the books, the minimum wage was set below the market wage. These economies relied on supply and demand for their labor market outcomes.

If the successful economies of East Asia did not rely on minimum wages and other forms of intervention to raise wages, did they do the opposite? Did governments actively intervene to reduce or repress wages? Singapore aggressively managed wages for a short period, but these policies are not generally viewed as one of the city-state's better strategies. The Republic of Korea used wage guidelines to keep wage increases below productivity growth, but because it also achieved one of the fastest rates of growth of sustained real wages of any economy for which there are data, it is difficult to argue that wage restraint was a central feature of government labor policy. Elsewhere in the region there is little evidence of policies of wage repression (Freeman 1993; Lindauer and Velenchik 1994).

Economic development in these four economies was based on the export of labor-intensive manufactured goods. Labor policies contributed to this pattern of development by not artificially pushing up labor costs in the formal sector (as minimum wage policy or other regulations that affect nonwage costs). The manufacturing wage was about 20 percent higher than the agricultural wage. By contrast, throughout Africa and Latin America and the Caribbean, where institutional wage setting was common, wages were more than twice as high in manufacturing as in agriculture, slowing employment growth in manufacturing.

Other economies in East Asia that are now following the same path of export-led growth pursued earlier by the newly industrialized economies also have adopted broadly similar labor market policies. Many countries in the region either have no minimum wages (such as Malaysia) or minimum wages that are below prevailing market wages. Indonesia recently took a
different stance, raising minimum wages significantly every year since the beginning of the decade, a policy that is likely contributing to the rapid increase in average wages, at least in the formal industrial sector. By 1994 minimum wages were about 60 percent of average wages. Perhaps more alarming, they were more than 80 percent of average wages for female workers. Since women constitute the majority of workers in export-oriented manufacturing industries such as textiles, garments, and footwear, this measure is likely to be a better indicator of the potential impact of the minimum wage on the costs and competitiveness of these industries. And if rising labor costs in these industries as a result of the high minimum wage policy begin to erode their international competitiveness, any negative employment effects are likely to be borne, at least at first, by the female workforce of these industries.

The role of unions

One of the most controversial issues in deriving lessons from East Asia's success is the role of labor unions and of state-labor relations. Based on East Asia's example, many observers ask why developing economies need concern themselves with trade unions, collective bargaining, and labor relations legislation. The Republic of Korea and Taiwan, China, achieved unprecedented rates of economic growth by letting entrepreneurs manage their work forces as they saw fit. They paid wages that were sufficient to acquire and retain the workers they needed. Would unions have raised wages above true market levels and so reduced profits and eventually impaired growth and development? Was the repression of unions therefore a necessary condition for the success of East Asia? Should their experience provide a labor market model for other low- and middle-income nations?

The economies of this region followed a diversity of industrial relations policies (Box 9). A policy of unfettered labor markets and repression of unions was neither typical nor necessary for their economic success (Freeman 1993; Frenkel 1993). Even though some East Asian economies were able to repress unions for a while, most are now under pressure to install a more modern system of labor relations. One of the main forces at work is the tightening of labor markets, especially in the newly industrialized economies and more recently in Malaysia and Thailand. Tight labor markets make it more difficult for employers to replace dissident employees, and higher wages enable workers to sustain themselves on their savings for at least short periods of time and to support unions with dues payments. Also, the rapidly changing comparative advantage of some countries in the region from labor-intensive goods to skill-intensive goods requires more sophisticated production techniques and more sophisticated worker-management relations. And finally, as workers become more affluent, demands for greater political democracy begin to emerge, as in the Republic of Korea and Taiwan, China. Resentment over working conditions that was stifled in the past can now be expressed openly. In the absence of an industrial relations system that allows grievances to be aired and disputes to be resolved, strikes and other forms of job action, sometimes violent, multiply.

Moving toward freer unions

Despite the differences in the structures of labor unions in East Asia, there is a common trend toward freer unions. Galenson (1992) notes before the late 1980s, conditions in five East Asian economies—the Republic of Korea, Malaysia, the Philippines, Thailand, and Taiwan, China—were determined unilaterally by employers, sometimes with the assistance of the government. Starting in the late 1980s, except in Malaysia, changes began to take place in these countries that affected the role of unions. These changes were linked to political changes toward more democratic governments. In addition, a tightening of labor markets and movements up the ladder to higher value-added goods and more sophisticated production processes have reinforced the pressures for modernization of industrial relations systems in East Asia.

Experience in East Asia seems to show that after a certain level of development is reached, countries will inevitably feel the need to put in place a modern system of industrial relations. Failure to do so may entail serious costs later. The Republic of Korea is a clear example of this change. After years of tight government control the number of strikes began to increase enormously in 1987, at great cost to the economy. Disappointingly low economic growth in 1989 was attributed to appreciation of the currency and to large wage increases, workplace stoppages, and labor productivity declines attributable to labor strife (World Bank 1990).

The surge in workforce militancy in Korea since 1987 has pushed up its labor costs faster than its competitors' (Wilkinson 1994). While Korea's GNP per capita is still the lowest among new industrialized economies by a significant margin, manufacturing labor costs have risen so dramatically since 1987 that by 1990 they were virtually the same as those of Singapore and Taiwan, China, and much higher than those of Hong Kong (Table 10).

The costs of wage increases have far outstripped the savings from productivity increases, leading to a dramatic increase in unit labor costs. Korea's performance compares unfavorably with that of its two most important competitors, Japan and Taiwan, China (Table 11). Japan's productivity performance has been remarkable, accounting for the nation's continued international competitiveness. Taiwan, China, also has performed well: large wage increases have been accompanied by a 38 percent improvement in productivity since 1986. Korea's massive
Different forms of government result in different forms of unions

<table>
<thead>
<tr>
<th>Different forms of government</th>
<th>Different forms of unions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Centralized</td>
<td>State intervention</td>
</tr>
<tr>
<td>Decentralized</td>
<td>Independent organizations</td>
</tr>
<tr>
<td>Authoritarian</td>
<td>Corporatist</td>
</tr>
<tr>
<td>Democratic</td>
<td>Tripartite</td>
</tr>
</tbody>
</table>

This table shows the variety of union patterns in different political systems. It highlights how government ideologies influence the nature of labor relations and union structures.
Labor Policies, Labor Institutions

Korea's labor problems contributed to a rapid increase in its labor costs...

Table 10. Hourly compensation costs of production workers in manufacturing in selected economies, 1986–90
(U.S. dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>United States</th>
<th>Japan</th>
<th>Korea, Rep. of</th>
<th>Hong Kong</th>
<th>Singapore</th>
<th>Taiwan, China</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>13.25</td>
<td>9.31</td>
<td>1.34</td>
<td>1.88</td>
<td>2.23</td>
<td>1.73</td>
</tr>
<tr>
<td></td>
<td>(70)</td>
<td>(10)</td>
<td>(14)</td>
<td>(15)</td>
<td>(17)</td>
<td>(13)</td>
</tr>
<tr>
<td>1987</td>
<td>13.52</td>
<td>10.83</td>
<td>1.65</td>
<td>2.09</td>
<td>2.31</td>
<td>2.26</td>
</tr>
<tr>
<td></td>
<td>(80)</td>
<td>(12)</td>
<td>(15)</td>
<td>(17)</td>
<td>(17)</td>
<td>(17)</td>
</tr>
<tr>
<td>1988</td>
<td>13.91</td>
<td>12.80</td>
<td>2.39</td>
<td>2.40</td>
<td>2.57</td>
<td>2.82</td>
</tr>
<tr>
<td></td>
<td>(92)</td>
<td>(17)</td>
<td>(17)</td>
<td>(19)</td>
<td>(20)</td>
<td>(20)</td>
</tr>
<tr>
<td>1989</td>
<td>14.31</td>
<td>12.63</td>
<td>3.29</td>
<td>2.79</td>
<td>3.15</td>
<td>3.53</td>
</tr>
<tr>
<td></td>
<td>(88)</td>
<td>(23)</td>
<td>(19)</td>
<td>(22)</td>
<td>(25)</td>
<td>(25)</td>
</tr>
<tr>
<td>1990</td>
<td>14.77</td>
<td>12.64</td>
<td>3.82</td>
<td>3.20</td>
<td>3.78</td>
<td>3.95</td>
</tr>
<tr>
<td></td>
<td>(96)</td>
<td>(26)</td>
<td>(22)</td>
<td>(26)</td>
<td>(27)</td>
<td>(27)</td>
</tr>
</tbody>
</table>

Note: Figures in parentheses are percentages of the U.S. wage standard.

wage increases, by contrast, have not been matched by productivity gains, pushing up unit labor costs 68 percent between 1986 and 1990. Over the same period unit labor costs rose only 15 percent in Taiwan, China, and fell 8 percent in Japan.

Exactly why productivity has not increased in Korea at as fast a rate as in Japan or Taiwan, China, is not entirely clear. Researchers suspect that part of the answer lies in the relation between labor and capital in Korea, which tends more toward antagonism than cooperation. This contrasts with the situation in Japan, where there is widespread consultation between management and workers on a host of issues such as wages and bonuses, working hours, welfare benefits, rationalization of production through new technology, and organizational change. This mechanism is used most commonly in highly unionized establishments, especially where establishments are large, labor-intensive, and operate with continuous-process technology. Joint consultation is viewed positively by both management and employees, and some 70 percent of Japanese firms report using it. There is a trend toward an even more expanded process of consultation in Japan. One possible reason is the increasing vulnerability of management to more competitive and unstable markets, which leads to greater dependence on employees and unions.

Improving the economic impact of unions

With the trend toward freer unions in East Asia, the challenge for policymakers is to create an environment that minimizes the negative effects of trade unions while encouraging their positive contributions to growth and equity. Experience indicates that such an environment will usually include competitive product markets and regulatory and institutional frameworks designed to protect workers' freedom of association and organization, including their right to join or not to join any union. Many countries' regulations also seek to support collective bargaining in the private and public sectors. Korea's failure, earlier in its industrialization, to engage in institution building for improved labor relations contributed to the contentious bargaining of the late 1980s—and ultimately to Korea's loss of competitiveness.

East Asian economies, because of their strong export orientation and integration with world markets, subject their product markets to highly competitive pressures. This has limited their unions' ability to obtain higher wages for their members. In competitive environments, rising wages would force unionized establishments out of business unless the higher wages could be justified by increased productivity. In less competitive environments, unions will attempt to capture economic rents and will ally themselves politically with their employers and with politicians who promise to perpetuate those rents. This kind of behavior has been evident in industrial countries, where...

...and to an erosion of its competitiveness

Table 11. Unit labor costs in manufacturing in the Republic of Korea, Japan, and Taiwan, China, 1987–90
(index: 1986 = 100)

<table>
<thead>
<tr>
<th>Year</th>
<th>Korea</th>
<th>Japan</th>
<th>Taiwan, China</th>
<th>Korea</th>
<th>Japan</th>
<th>Taiwan, China</th>
<th>Korea</th>
<th>Japan</th>
<th>Taiwan, China</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>112</td>
<td>103</td>
<td>110</td>
<td>103</td>
<td>109</td>
<td>111</td>
<td>109</td>
<td>94</td>
<td>100</td>
</tr>
<tr>
<td>1988</td>
<td>124</td>
<td>104</td>
<td>122</td>
<td>110</td>
<td>116</td>
<td>116</td>
<td>121</td>
<td>90</td>
<td>105</td>
</tr>
<tr>
<td>1989</td>
<td>167</td>
<td>110</td>
<td>140</td>
<td>110</td>
<td>121</td>
<td>127</td>
<td>151</td>
<td>91</td>
<td>110</td>
</tr>
<tr>
<td>1990</td>
<td>201</td>
<td>115</td>
<td>159</td>
<td>120</td>
<td>126</td>
<td>138</td>
<td>168</td>
<td>92</td>
<td>115</td>
</tr>
</tbody>
</table>

union wage premia in concentrated industries. In many countries union opposition to trade liberalization and privatization is a rational strategy for maintaining higher wages for unionized workers in the short run at the expense of nonunion workers. Promoting domestic competition and openness to international markets will weaken these negative influences.

Although product markets might be reasonably satisfactory, what is lacking in many East Asian economies is an appropriate regulatory and institutional framework that clearly defines the rules of the game within which labor unions are to operate. In defining such rules, societies have to wrestle with the problem of finding the proper balance between upholding the principles of free association and organization and granting entitlements that result in resource inefficiencies (Pencavel 1995). To mitigate the negative effects of unions, what is needed is a legal framework that neither encourages nor discourages unionism, but that contains unionism in the domain in which it has potential as a productive force, namely, the enterprise.

If collective bargaining takes place at the enterprise or plant level, the ability of the union to achieve monopoly wage increases is tempered (because the competitive pressures on the firm from the product market are greatest), and yet the potential exists for the union to act as a participatory organization for workers. Furthermore, if collective bargaining takes place at the enterprise level, its content should ideally be determined by the parties themselves, and there should be no need for legislation to prescribe what the parties may or may not contract over. However, decentralized bargaining requires strong guarantees of union rights. A system of industrial relations based on enterprise-level unions can be open to abuse by employers unless union rights are protected by labor legislation and enforced by governments that remain as a neutral third party.

A key challenge for most East Asian economies is to shift toward a more neutral role for government in industrial relations. The history of the region is not of neutrality, but of an active government role in repressing labor organizations. Although complete bans on organizing have been rare, governments have employed extensive definitions of essential industries or services in which organizing is banned (often including export processing zones), instituted onerous provisions for union registration, provided weak (or no) protection for union organizers and, in some cases, have been guilty of the most serious human rights abuses against independent labor leaders.

East Asia is not alone in its history of union repression; most of today's high-income economies have a similar past. In Japan a system of industrial relations based on enterprise-level bargaining combined with legislative protection for unions has evolved after a long history of repression of the trade union movement. Industrial harmony is not a natural state in Japan or elsewhere, but must be actively created by workers and employers, often with the crucial support of the state.

Dealing with Income Security

Sharp drops in income from work can have a profound impact on the living standards of workers and their families. Unemployment, disability, and old age are all important causes of poverty in industrial and developing countries alike, and of deeper poverty for those who are already poor. Most societies have developed ways of coping with the threat to living standards from both expected and unexpected falls in income. Often this involves some combination of private savings, informal support mechanisms, and obligations on employers. Governments step in when these informal or private solutions prove insufficient. This may occur because households find it difficult to borrow to cover temporary falls in labor income, because community support mechanisms break down when there is a community- or economy-wide shock, because these mechanisms weaken with urbanization and the diminishing importance of the extended family, and because private markets for unemployment and disability insurance and old age pensions are limited or absent.

Community Support and Private Transfers

Countries in East Asia, as in most of the developing world, rely primarily on informal systems—with no government and little market involvement—for income security. Financial help from relatives remains the principal form of income support and redistribution. The extended family is an important way of providing extra income and security to individual workers and their immediate households. In Malaysia private transfers account for almost half the income of the poorest fifth of households. Nearly three-quarters of rural households in Java, Indonesia, give private transfers to other households.

Private transfers play an important insurance function in addition to reducing income inequality: they provide old age support and ameliorate the effects of disability, illness, and unemployment. Indeed, ensuring support in old age is one of the reasons for having children. However, family support systems are under stress in East Asian economies with high growth and urbanization rates (World Bank 1994a). But those systems are demonstrating resilience, which seems to come from flexibility and adaptability (Box 10). Higher incomes allow for increased monetary transfers between households, so that financial aid is substituting for joint living arrangements. Higher incomes also allow for more personal savings by the old, relieving pressure on children.

Public Action to Support Income Security

In rural and informal labor markets few, if any, workers have access to formal social security schemes. Public works programs
Transition and, in China, the effects of the combination of early gains in rural health status and an activist population policy.

The issue of formal income security appears to raise the specter of painful tradeoffs between caring and competitive societies. The welfare state, created in Europe, is being questioned. Favorable benefits and the associated high taxes are often accused of resulting in lack of competition, slow employment growth, weak incentives for work, and high unemployment. While there is controversy about how flexible labor markets in Europe are in practice, with some evidence suggesting levels of flexibility comparable to the less-protected U.S. market, the general trend is toward deregulation. Cradle-to-grave security for all workers under Soviet-style central planning is also in decline in transition economies in Europe and Central Asia and is in urgent need of reform in China (where it applies only to the minority of workers in state enterprise employment; see Chapter 5). And the model of employment protection adopted in many developing economies—for example, in South Asia and Latin America—that emphasizes job security regulations as a substitute for comprehensive unemployment insurance is also under attack, since it seems to protect insiders at the expense of formal employment growth.

The dynamism of successful East Asian economies is sometimes linked to the avoidance of state protection for households and to the greater reliance on the family as a source of support (Rohwer 1995). While this has some truth, it would be a mistake to conclude either that East Asia could avoid the need (or demand) for social insurance or that rising security inevitably involves weakened incentives and adverse labor market effects. Social insurance becomes more important with rising incomes in East Asia, just as it does elsewhere. Provisions for pensions, health, disability, and unemployment insurance are widespread in Japan and have been growing rapidly in the Republic of Korea, which introduced a comprehensive unemployment insurance law in 1995. Malaysia and Singapore for decades have been running the two most successful publicly managed provident funds in the world. Some East Asian economies will have to undertake significant reforms of their social insurance systems. Japan shares with other mature industrial societies the difficult combination of a rapidly aging population and an unfunded pension scheme. In China state enterprise workers have full job and old age security as part of the labor contract (see Chapter 5). But most East Asian economies still have an opportunity to develop schemes that avoid the labor market rigidities, inequities, and fiscal problems of social security schemes such as those of European or Latin American countries and can learn from the reforms being undertaken in these other societies. The central design principle for minimizing adverse labor market and fiscal effects is to link contributions to benefits (as in the individual purchase
of private insurance) while delinking many aspects of insurance from particular jobs to ensure worker mobility. Direct matching of contributions to benefits is not always feasible or desirable. For example, it is rarely considered feasible to link entitlements to unemployment insurance to the probability of job loss in a particular occupation—only the United States among rich economies has such “experience rating” of the contributions that employers must make on behalf of their workers. And most societies would choose to have protection for their poorest members that is greater than these members’ potential to contribute by building some redistribution into social insurance schemes (this can also be effected through a separate social safety net).

A major challenge for the next decade is the design of social insurance mechanisms that are both caring and competitive. They must deal with the risks that workers in the formal economy face in the course of their lives without adversely affecting labor demand and supply, inadvertently taxing the rural or informal sector, or creating fiscal nightmares for their children.
Labor in the Transition from Central Planning

Three-quarters of East Asia's workers—more than 900 million people—work in economies with a history of central planning. Even excluding China's roughly 800 million workers, there are almost 100 million workers with this legacy. With the exception of the Democratic Republic of Korea and to some degree Myanmar, all the countries in this group are in the midst of a huge transition from centrally planned to market-based forms of organization.

These economies are all low income (their income was less than $500 per capita in 1993; see Table 1), whereas all the developing market economies of East Asia have grown to middle- or high-income status. Since the transition from central planning started, however, there has been an equally striking surge in growth among these countries. China since 1978 and Vietnam since 1989 have been among the fastest growing economies in the world, with substantial growth in labor productivity, rural incomes, and wages. Most of their workers have benefited greatly (Table 12). In Lao PDR, still a predominantly rural economy, labor productivity has grown by an estimated 3 percent a year over the past decade, and in Cambodia there are also signs of an economic recovery. This is in sharp contrast to the economies of Central and Eastern Europe and the former Soviet Union, which were some of the fastest declining economies in the world in the initial years of their transition.

Only Mongolia, and perhaps the Democratic Republic of Korea (for which there are little data), have experienced significant declines in the 1990s.

Why were East Asia's experiences so different from those of the other transition economies? An important part of the answer lies in the initial employment structure and the predominance of agricultural employment. There were also differences in institutional and political conditions. And these economies dealt swiftly and effectively with macroeconomic instability when it occurred—notably Vietnam's stopping of hyperinflation in 1988 and China's management of its periodic inflationary booms (World Bank 1996b).

Transition brought quick gains for farmers. At the beginning of the transition most workers in China and throughout Indochina worked on the land. Changing opportunities in rural areas have been crucial to their lives. The heritage of the overall employment structure and labor organization in agriculture turned out to be a huge advantage in the first phase of transition (Table 13 summarizes the contrasts with Europe and Central Asia).

At the beginning of the transition China and Vietnam had a comparative advantage in agriculture but a repressed agricultural sector. Reorganization into family farms—through new leasehold arrangements in China in 1978-83 and the breakup of cooperatives in Vietnam in 1989—restored the land to a more efficient form of labor organization for agriculture. Reduced taxation increased both incomes and incentives. For China and Vietnam, in particular, this meant that the first phase of transition started with a burst of income growth for the poorest group of workers and households. By contrast, in virtually all the centrally planned economies of Europe and Central Asia, and also in Mongolia, the essentially Stalinist development strategy was associated with a forced industrialization that had involved premature shifts of labor from agriculture to industry, the conversion of farmers into wage-earning rural workers, large price subsidies, and social security provisions for rural workers comparable to those for urban workers.

Initial agricultural gains supported a powerful dynamic of rural development and employment growth. Chinese rural

Transition brought gains to workers in East Asia, with the exception of Mongolia

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Output per worker</td>
<td>7.5</td>
<td>4.0</td>
<td>n.a.</td>
</tr>
<tr>
<td>Agricultural income</td>
<td>2.4</td>
<td>1.9</td>
<td>n.a.</td>
</tr>
<tr>
<td>Wages</td>
<td>4.6</td>
<td>n.a.</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Formal employment</td>
<td>2.2</td>
<td>n.a.</td>
<td>-8.6%</td>
</tr>
</tbody>
</table>

n.a. Not available.

a. Real wage Index in Mongolia fell from 100 to 47.6 during 1991-93 and rose again to 82.2 in 1994.

b. Industrial employment.

Source: PRC 1995; World Bank staff estimates.
areas achieved an extraordinary dynamic of diversified income and employment growth, fueled by a combination of rapidly rising local demand, rising household savings, and a high degree of labor mobility. There was some growth of employment in farming, but the most important source of job expansion was the explosive growth in rural township and village enterprises. They accounted for 60 percent of the growth in the rural labor force between 1978 and 1988, while permanent migration to urban areas accounted for only 13 percent (Table 14). By the early 1990s rural enterprises provided employment for 106 million workers in a rural labor force totaling 430 million people. Some 270 million workers were primarily farmers, and 40 million were temporary migrants to urban areas.

After the mid-1980s rural income growth slowed. The terms of trade shifted against agriculture, but even more important was a relative slowdown in productivity growth after the initial gains from reorganization of labor worked their way through the system. Rural-urban income differentials widened (Figure 10). By international standards agricultural productivity growth was still respectable, but it was much slower than productivity growth in urban areas. After 1988 there was also a slowdown in employment growth in rural enterprises. Township and village enterprises accounted for only a third of the rise in the rural labor force between 1988 and 1992.

The pattern of growth in rural incomes had a powerful impact on poverty, with rapid gains in reducing poverty in the early 1980s and then stalling of progress in the late 1980s (World Bank 1992). Much of the rural population is poor by many standards, and a significant fraction is very poor. Based on

Source: Authors’ construction.

Table 13. Structure of rural employment in East Asia and Europe and Central Asia

<table>
<thead>
<tr>
<th>Item</th>
<th>East Asia</th>
<th>Europe and Central Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sectoral labor allocation</td>
<td>Primarily in agriculture (some 70 percent in China and Vietnam); agriculture taxed</td>
<td>Primarily in industry (38 percent in Poland, 44 percent in Russia); agriculture subsidized</td>
</tr>
<tr>
<td>Labor organization in agriculture</td>
<td>Cooperative or communal, allowing swift conversion to family farming</td>
<td>State farms or cooperatives with rural workers (essentially employees)</td>
</tr>
<tr>
<td>Social services for rural workers</td>
<td>Largely locally financed and provided</td>
<td>Rural workers participated in national and enterprise social security and service provision</td>
</tr>
</tbody>
</table>

Source: Knight and Song 1995.

Table 14. Additional workers and employment in China, 1978–88

<table>
<thead>
<tr>
<th>Employment category</th>
<th>Number (millions)</th>
<th>Share (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth in rural labor supply</td>
<td>108</td>
<td>100</td>
</tr>
<tr>
<td>Urban Jobs</td>
<td>14</td>
<td>13</td>
</tr>
<tr>
<td>Rural enterprises</td>
<td>67</td>
<td>62</td>
</tr>
<tr>
<td>Other rural (peasant production)</td>
<td>27</td>
<td>25</td>
</tr>
</tbody>
</table>

Source: Knight and Song 1995.

the official poverty line (which appears to be low by international standards) there are some 80 million rural poor, plus about 15 million urban poor. By some estimates there are an additional 200 million people—mainly in rural areas—who are poor according to the measure of living on less than a dollar a day at 1985 international prices. While it is particularly difficult to get an international comparison for China because of weak data on the cost of rural living (and because any poverty line is somewhat arbitrary), it is nonetheless clear that almost 10 percent of the population lives in severe poverty and a further 20 percent are poor or near-poor. Most of them live in rural areas, though the share of urban poverty is rising along with urbanization.

Whatever the level of poverty, there is evidence of much slower progress in rural poverty reduction in the second half of the 1980s. Analysis for four provinces of southern China (including the relatively rich and dynamic Guangdong and three poorer and slower growing provinces) found that between 1985 and 1990 poverty actually rose in Guangxi and Yunnan (and by some measures in Guizhou) and fell unambiguously.

Figure 10. Rural-urban income differential in China, 1978–92

After initial rapid gains for rural workers, rural-urban income differentials widened

Source: Knight and Song 1995.
L A B O R  I N  T H E  T R A N S I T I O N  F R O M  C E N T R A L  P L A N N I N G

only in Guangdong (Figure 11). The primary source of rising poverty was an increase in inequality of spending across households, though weak rural growth was also a factor. In the much more dynamic province of Guangdong distributional changes actually helped the poorest, indicating either that growth is raising the labor incomes of the very poor or that they are participating in growth through transfers from others.

The weak participation of some of the poorest households in the growth process since the second half of the 1980s may be driving the overall widening in rural-urban income differences. This trend may be the result of a number of phenomena:

- A shift in the source of dynamism in the economy to urban coastal areas as a result of urban and industrial reforms and the surge of foreign direct investment.
- Limited mobility (Box 11). Though controls on migration for work were lifted in the 1980s, it remains difficult for households to change their place of registration, and there are significant disincentives for richer villages to open their labor market to migrants since they might have to share their collective assets, including social services.
- Greater likelihood that relatively well-off rural households would get the better-paying jobs in rural enterprises (Knight and Song 1995), in part because participation in rural enterprises usually involved some contribution of capital.
- Substantial fiscal decentralization of social service provision to county- and village-level authorities, implying especially poor services (to a greater extent than in most countries) in disadvantaged areas.

In terms of rural incomes and productivity Vietnam is one to two decades behind China. An estimated 60 percent of its rural dwellers live in absolute poverty. Lao PDR is slightly better off in terms of rural income, despite the fact that its rural economy is less integrated with the national market. Cambodia is still suffering the after-effects of war. But the countries of Indochina can look to China's recent experience as an example. They also can look to market-based economies such as Indonesia. The labor absorption challenge for these economies is a variant of the classic development task of economic transformation at which most of the market-based economies of East Asia have been so extraordinarily successful. The transformation involves a combination of rising labor productivity in rural areas, centered on increased agricultural productivity, and labor shifts into higher-productivity nonagricultural jobs in both rural nonfarm and urban activities.

Creating an environment that avoids agricultural taxation and provides strong infrastructural support for rural development is critical for Indochina, just as it is for developing countries with a market tradition. Vietnam has already begun: Cambodia, Lao PDR, and Myanmar will need to do so as well. Encouraging mobility of workers and a broadly based pattern of human resource development—with all that implies for fiscal transfers—is an essential complement to such a strategy. Without rural productivity growth there is no hope of strong growth in labor demand in the next phase of the transition.

China, while well ahead of the countries of Indochina, faces yet another version of the same development challenge. It may be closer to the turning point of a significant tightening of rural labor markets and rising labor incomes (see Box 1). The experience of Guangdong shows that rapid growth pulls along the rural poor. But most observers still believe that there is a large surplus of rural workers that is only being held to the countryside by restrictions on residency rights (Box 11). To the extent that these provisions restrict movement, there is a case for phasing them out gradually to avoid shocks to urban labor markets. But it is clear that ensuring that China's workers participate in overall growth will depend on allowing poorer workers to move or on bringing productive capital to poorer regions and improving social services in these areas.

Urban labor markets and state enterprise reform

Under central planning most urban workers were employed by state enterprises and governments. Job security was guaranteed, and in China (but much less in Vietnam and elsewhere) a job came with housing, health and education services, sickness and disability benefits, and a pension. Wages were influenced by some of the same factors as in market economies—notably education and experience—but wage differentials in the urban market were much smaller than in market economies. In China there was also a significant premium to age (over and above returns to experience) and to party membership (Knight and

![Figure 11. Head count index of poverty in four provinces of southern China, 1985–90](percent)

---

**Only in Guangdong did poverty fall unambiguously from 1985 to 1990**

**Figure 11.** Head count index of poverty in four provinces of southern China, 1985–90

(percent)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>45</td>
<td>40</td>
<td>35</td>
<td>30</td>
<td>25</td>
</tr>
</tbody>
</table>

**Source:** Chen and Ravallion 1995.
Song 1995). As in the centrally planned economies of Eastern Europe and Central Asia, many jobs were (and are) in activities that are unviable under market conditions. Nonstate sector urban employment is rising, but public sector employment is still at the core of the labor market in China (Table 15).

The challenge of transition for the urban labor market has three main components: developing the conditions for rapid growth in labor demand, creating a labor market under a new social contract that is both caring and consistent with a market-based economy, and helping those hurt by change. These components are interrelated. A poorly functioning labor market, or one that gives excessive protection to particular groups of workers (especially state enterprise workers), is likely to be an impediment to urban economic growth. Developing a new social contract for urban workers and their households will be much tougher if wages and employment are not growing. And helping those threatened by change—notably those among the more than 100 million Chinese state enterprise workers who risk losing jobs, housing, or security—is important for allowing effective change to occur.

**Effective policies outside the labor market**

Although rural employment will continue to account for the majority of jobs for some time in all the East Asian transition economies, job creation in urban areas will be vital. As discussed in Chapter 2, it was a combination of vigorous urban job growth and rising rural labor productivity that brought gains to workers and hastened the transition to a turning point of rising rural labor incomes in all the East Asian successes.

If China follows international patterns, 60 percent of its population could be living in cities in 2020, compared with less than 30 percent in the early 1990s. Since employment composition is highly correlated with population distribution (indeed, the dynamics of rural-urban migration mean that employment is usually the leading factor), there would be a comparable shift of work. This would be entirely consistent with China's apparent comparative advantage. Despite its large land mass, ratios of labor to arable land are high, and as skills and capital accumulate, China would be expected to become a primarily manufacturing and service-based economy. Such a change would imply a 30 percent decline in rural employment and a nearly 140 percent expansion in urban employment.

For the poorer economies of Indochina and (in due course) Myanmar, it is also important to start on a path of efficient labor-absorbing urban growth, even though the contribution

---

**Table 15. Pattern of urban employment in China**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total urban</td>
<td>95.1</td>
<td>168.2</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>State enterprises</td>
<td>74.5</td>
<td>112.1</td>
<td>66.7</td>
<td></td>
</tr>
<tr>
<td>Collectives</td>
<td>20.5</td>
<td>32.9</td>
<td>19.6</td>
<td></td>
</tr>
<tr>
<td>Private enterprises</td>
<td>0.2</td>
<td>150.0</td>
<td>8.9</td>
<td></td>
</tr>
<tr>
<td>Share of total employment</td>
<td>23.6</td>
<td>27.3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

to total job growth will be relatively small in the next few years. Poor countries that have failed to shift up to a long-term growth path often have gotten locked into a capital-intensive urban development path with a small and slowly growing formal sector. India pursued a successful rural development strategy between 1970 and 1990 that brought a 70 percent rise in agricultural wages, but an industrialization strategy based on state-owned and highly protected industries failed to generate rapid output and employment growth.

Reforms outside the labor market are essential to urban job growth. Slow industrial job growth in countries ranging from Argentina to India has occurred in an environment of high protection (often associated with overvalued exchange rates) and cheap capital for favored urban firms. The dominance of state enterprises in the formal sector is highly conducive to such favored treatment, especially when the financial system is also largely state-owned. Workers with formal sector jobs share in some of the benefits of favored treatment at the cost of a smaller and slower growing formal sector.

In China there is evidence that state enterprises are highly capital-intensive relative to the rest of the economy and to other firms producing the same product. Vietnam has had some initial success in attracting foreign direct investment, but almost exclusively in joint ventures with state enterprises that often enjoy high degrees of trade protection and favored access to credit, again bringing high risks of inefficient, capital-intensive patterns of growth. In Lao PDR and Cambodia there is a risk of a different kind of problem: inflows of foreign exchange causing the exchange rate to appreciate, leading to slower growth of labor-intensive industrial products (in Lao PDR if hydroexports take off, in Cambodia from donor inflows). If the inflows are permanent this may not matter, provided labor-intensive services take off, but this still requires management of the pattern of spending of the receipts. These are all illustrations of a central lesson of economic history: macroeconomic, industrial, and capital market policies are critical to achieving rapid growth in labor demand in the process of transition.

Reforming the enterprise sector and a new social contract

The transition from central planning involves dealing with two features of urban employment. First, some jobs are unviable in a market environment, often because central planning and protected production fostered activities that are not competitive. This is especially the case where there has been labor hoarding under soft budget constraints. (In China surveys of enterprise managers find surplus labor on the order of 15–20 percent.) Second, the characteristic labor contract with state enterprises under central planning is unsuited to market conditions because of high degrees of job security and an array of social benefits linked to employment with a specific enterprise (Box 12).

Downsizing the state enterprise sector has proceeded at very different rates in different transition economies. In Vietnam employment declines were rapid, with more than a million jobs lost between 1987 and 1992. More than one-fourth of state enterprise employment in 1987 was retrenched, mostly due to the closure of 2,000 (of a total of 12,000) enterprises. Evidence suggests that most workers moved into the fast-growing private sector—in informal urban enterprises or in agriculture. In 1993 the urban unemployment rate was only 1.3 percent. By contrast, Mongolian employment fell 13 percent and the urban unemployment rate rose to 11.6 percent in 1994 and to 12.9 percent in 1995, a reflection of the predominance of an overblown state enterprise sector, a much weaker nonstate sector (notably in agriculture) under central planning, and the debilitating effects of overall recession.

Large job losses in Vietnam were associated with the need for a sharp stabilization to deal with lost Soviet revenues and high inflation. The Vietnamese government was remarkably effective in this stabilization. An important component was the imposition of a hard budget constraint on enterprises. State enterprise
workers in Vietnam generally do not have entitlements to a range of social services, so this did not complicate the layoffs.

Although job losses in the state enterprise sector have been small in China, total employment has grown steadily (see Table 15). In recent years there have been some job losses—for example, 130,000 workers in fifteen state enterprises declared bankruptcy in Shanghai, as did 2,000 workers in a knitting mill in Chongqing. But these are tiny relative to total employment of more than 100 million. Official estimates of surplus labor in state enterprises are 15 percent, but with about 40 percent of the sector running losses despite favored treatment in protected product markets and cheaper credit, the actual proportion of unviable jobs could be significantly higher. The small levels of job losses flow from two factors. The overall macroeconomic situation was good enough to allow more efficient parts of the economy to effectively sustain inefficient state enterprises—and their workers—with implicit taxes. And reform is difficult when it requires losses to a politically important group of workers and is tied up with the overall social contract with urban employees.

Creating a well-functioning labor market is inextricably linked to reforming the enterprise sector. Enterprise reform in turn is linked to reform of other aspects of the social contract with urban workers. Currently, most state enterprises have substantial housing assets, carry explicit or implicit liabilities (notably for social insurance), and pay wages much below the market equivalent because of the social payments in-kind. Thus a new contract must involve a new overall social contract. Traditional labor contracts embodied a broad form of social contract between the state and workers—even if the rapidly growing numbers of workers excluded from the core contract benefited little. It is not enough simply to divest contracts of those features in conflict with market-oriented growth. Alternative ways of meeting the social needs of workers must be established. In the long run this is likely to involve four elements:

- Developing a market for urban labor by allowing firms to set wages in line with market conditions and the productivity of workers and removing many government controls on hiring and firing.
- Letting employers and their workers determine the structure of wage and nonwage benefits within the total remuneration package.
- Delinking housing and social services from the labor contract by supporting the development of a market in housing and by shifting to local government responsibility for provision of at least basic health and education services.
- Reforming pensions and health insurance by delinking entitlements from enterprises, pooling risks, and allowing job mobility without loss of insurance benefits.

In many of these areas there has been significant reform and experimentation in China. Productivity-linked labor contracts were introduced in 1984, though only for new contracts. These contracts now cover 26 percent of state enterprise employment. But wage changes still appear to be divorced from productivity changes. In the first nine months of 1995 wages rose 23 percent in profit-making state enterprises that enjoyed productivity growth of 18 percent, but they grew at almost exactly the same pace—21 percent—in loss-making state enterprises that experienced labor productivity growth of only 2 percent during this period (World Bank 1996a).

Designing an overall reform that includes alternative provision for social services is a complex undertaking, but the key ingredients are clear. For housing it will involve converting implicit housing subsidies into higher wages, while raising rents to market levels and fostering development of the institutions of a housing market. For social insurance it will involve the formation of institutions of health, old age, and other social insurance separate from enterprises, eventually with pooling at a more aggregate level. Payments can be linked to the payroll, but it is critical that contributions be linked to benefits to avoid incentives to evade or reduce labor demand. For pensions an effective approach is to have a mixed system that provides both a guaranteed basic pension, linked to years of employment, and an additional pension based on a worker’s actual contributions over his or her working life.16

A genuine labor market will involve more job turnover and worker movement. A dynamic market economy has a lot of job movement. Jobs are continuously created and destroyed as a normal part of a market economy, and workers change jobs accordingly. Increasing job change is already happening in China, but outside the formal enterprise sector—most of all among the “floating population.” It will increasingly become the norm for all groups, even though long-tenure employment will persist where it confers mutual benefits on enterprises and workers. In a period of a shake-out, job losses can be large, as witnessed in an extreme form in the economies of Central and Eastern Europe. This raises the importance of transitional mechanisms to support workers between jobs. One way is through transfers such as severance pay or unemployment benefits to reduce the consumption losses of laid-off workers. Another is through active policies to provide information or retraining to help workers find new jobs. Both methods have been introduced in China and Mongolia. These mechanisms can facilitate the functioning of the labor market, but they are of secondary importance to fundamental labor market, enterprise, and social security reforms.

Two forms of dualism will persist. Comprehensive labor market and social security reform can lay the basis for the evolution of a well-functioning urban labor market, without special preferences for privileged insiders. But there will still be two forms of dualism. First, the experience of the industrializing East
Asian economies shows that a high share of urban employment continues to be informal—outside formal labor contracts and formal social security schemes—up to quite high-income levels. In Japan in the 1990s less than half the labor force works in jobs with long-term (implicit) contracts with large firms. It is precisely because there is such a natural dualism—linked to the technology of production—that it is important to avoid special privileges or ossification of the formal segment. Second, there is likely to be an important group of losers from the reforms—those who lose their jobs and then find that they command a lower wage in the open labor market. Some form of “grandfathering” of this group, through jobs, transfer of housing, and continuance of a revenue-financed pension scheme, is likely to be a necessary component of any reform. Current reform efforts are in this spirit (for example, the placement of a few workers who lose their jobs in other companies and the design options under debate for pensions). What is important is not to delay changes in the labor contract for younger workers. Reform of labor, housing, and social insurance is urgent, both because it is central to overall enterprise reform and because it will affect labor market behavior and future expectations of younger workers as well as the future fiscal burden of the state.
The Outlook for East Asian Workers in the Twenty-First Century

The prospects for East Asian workers as they approach the next century are bright. For most market-based economies in East Asia, investment and international engagement are bringing large gains, at least in wage incomes, to workers. The principal exception among large market-based economies—the Philippines—is now showing signs of takeoff. And most of the centrally planned East Asian economies have experienced a transition to market with bursts of growth and rising labor incomes for most workers. With continued high investment and rising engagement in international trade and capital flows, a continuation of growth in labor incomes is probable.

But continued overall growth, and continued involvement of most workers in the East Asian growth machine, is not guaranteed. Four risks are essentially linked to domestic conditions:

- **Rising inequality**, already emerging in China, Malaysia, and Thailand and possibly in Indonesia and the Philippines. This could worsen if education and training systems fail to deepen and broaden as countries move up the ladder of international production and confront shifting demand toward more skilled workers.
- **Failure to move toward a modern system of industrial relations and labor policy**, including efficient approaches to social insurance that provide for a caring and competitive environment. Failure to do so could lead to rising insecurity as informal systems of support break down; it could also lead to rising industrial strife, as has occurred in the Republic of Korea.
- **Some groups of workers getting left out of the overall growth dynamic.** This could include groups in relatively backward regions (for example, in rural parts of inner China or the eastern islands of Indonesia) or whole countries (including Papua New Guinea and the Pacific Islands) that fail to put in place the overall policy framework for effective growth and integration.

There are also two risks that flow from international action:

- **Slowing of international economic growth**, notably because of failures in fiscal consolidation in richer countries, that would put pressure on international savings and raise world interest rates.
- **Actions against East Asia by the international community.** These could be prompted by a perceived threat of low-wage labor taking away jobs in richer countries and by the view of some that labor rights are weakly respected. These actions could work through a number of channels: contingent protection against goods, pressures brought by shareholders of multinational companies, or influence on the investment policy of institutional investors (which could be a rising source of capital investment in the next twenty-five years).

Uncertainty is probably the greatest among the transition economies of the region, such as China and Vietnam. The fate of their workers in the twenty-first century will depend on whether they achieve an East Asian-style takeoff and engagement in the international economy, or whether their transitions stall. The performance of China will determine the outcome for one of the largest groups of poor workers in the world—rural farmers and laborers. The transition economies of East Asia are only partly integrated with international trade; the unfolding export boom in labor-intensive products offers the best hope of raising the incomes of their workers.

Overall, continued improvements in labor market outcomes for workers of the region depend on the selection of good domestic and international policies. To illustrate this point, *World Development Report 1995* (World Bank 1995c) developed a model of the world economy that simulates regional outcomes under different assumptions about policy directions. Two cases are presented in Tables 16 and 17. The
low-case scenario assumes that some of the risks mentioned above are realized. This is explored by projecting that recent world trends in investments continue or deteriorate, that a sizable share of those already enrolled in school drop out prematurely, and that the overall productivity of labor does not rise rapidly. The high-case scenario assumes, in addition to policy improvements in other countries, that performance in China and the rest of East Asia is especially strong. This scenario builds on the “convergent scenario” of World Development Report 1995 and adds to it higher investment rates, educational attainment, and productivity growth in China and elsewhere in East Asia. The high-case scenario projects a doubling of annual growth rates of GDP per capita and exports in China and the rest of East Asia relative to the low-case scenario (see Table 16).

The improved economic performance of all of East Asia under the high-case scenario is projected to lead to a substantial increase in the wages earned by unskilled and skilled workers in almost all the regions of the world (see Table 17). The only group of workers that is unaffected by a faster growing East Asia are the skilled workers in OECD countries, since their fortunes are influenced more by technological changes within their own economies and by intraregional trade than by trade with developing countries. The simulation results do not substantiate the fear (discussed in Chapter 3) that the entry of China into global markets—with its low wages and high quality—could transform the structure of world trade and put downward pressure on wages for unskilled workers in other countries. Instead the beneficial effects of rising wages and incomes in China are projected to be transmitted, through international trade, to other unskilled workers of the world, leading to an improvement in their wages and incomes as well.

East Asia has been an exemplar of fast growth bringing substantial gains to workers. But it faces enormous challenges. It is still predominantly a poor region. Decades of development lie ahead to bring the bulk of the region’s workers up to the incomes in Malaysia, more to bring them up to incomes in Japan or Singapore. Most economies—including those in transition from central planning—have done well on the fundamentals of economic policy, especially in formulating sound macroeconomic policy, opening to international exchange, and giving priority to social and economic infrastructure. But if there are to be sustained future gains in the working conditions and security of workers, sound policy and institutional development will be essential. What will be needed is continuing support for rural development, laying the infrastructure required for rising production and increasingly urbanized settings, fostering forms of industrial relations necessary for modern production, developing efficient forms of social insurance, managing the upgrading of the workforce as comparative advantage shifts, and taking action to ensure that workers and their children live in a safe, clean, and sustainable environment.

Table 16. China and the rest of East Asia’s economic performance under two scenarios, 1994–2010 (percent except where otherwise specified)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Low-case scenario</th>
<th>High-case scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor accumulation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment as a share of GDP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(period average)</td>
<td>22</td>
<td>35</td>
</tr>
<tr>
<td>Educational attainment of labor force (average years of schooling by 2010)</td>
<td>5.4</td>
<td>6.1</td>
</tr>
<tr>
<td>Total factor productivity growth (annual growth rate)</td>
<td>0.7</td>
<td>3.1</td>
</tr>
<tr>
<td>Output growth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP per capita (annual growth rate)</td>
<td>2.3</td>
<td>7.0</td>
</tr>
<tr>
<td>Exports (annual growth rate)</td>
<td>4.7</td>
<td>10.9</td>
</tr>
</tbody>
</table>

Table 17. Projections of wages of skilled and unskilled workers, by region, 1994–2010 (percentage change)

<table>
<thead>
<tr>
<th>Region</th>
<th>Low-case scenario</th>
<th>High-case scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unskilled</td>
<td>Skilled</td>
</tr>
<tr>
<td>China</td>
<td>19</td>
<td>35</td>
</tr>
<tr>
<td>East Asia</td>
<td>41</td>
<td>54</td>
</tr>
<tr>
<td>Former CMEA</td>
<td>3</td>
<td>29</td>
</tr>
<tr>
<td>Latin America</td>
<td>-3</td>
<td>45</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>-2</td>
<td>27</td>
</tr>
<tr>
<td>South Asia</td>
<td>15</td>
<td>49</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>High-Income OECD</td>
<td>15</td>
<td>47</td>
</tr>
</tbody>
</table>

a. Includes Hong Kong.
Source: World Bank staff estimates.
Notes and References

Notes

1. East Asia and the Pacific refers to the economies that are defined as belonging to the region in World Bank (1995b). Unless otherwise indicated, empirical evidence on the region generally refers to countries below 1993 gross national product (GNP) per capita of $10,000 plus Hong Kong, Singapore and Taiwan, China; where Japan is included, this is specified in the text. Data on the working age population are from ILO (1986) and ILO updates.

2. There is significant uncertainty over these numbers because of the weakness of international price comparisons for China and Vietnam. The larger number is based on Summers and Heston (1991); the difference is almost entirely due to the large numbers of Chinese living below the official poverty line—which is quite parsimonious—and the higher estimate of the domestic currency equivalent of $1 per day.

3. ILO statisticians emphasize that the recorded numbers represent large underestimates.


5. The two major East Asian economies for which data are lacking are Myanmar and the Democratic Republic of Korea. Productivity growth in these economies is likely to have been less than 2.5 percent a year during this period.

6. The share of wage workers in the agricultural labor force was only 13 percent in Indonesia, 21 percent in the Philippines, and 29 percent in Malaysia—and significantly less in most other countries in the region.

7. Estimates range from a third to two-thirds of the agricultural workforce; see Taylor (1988). Also see Chapter 5 in this volume.

8. Although a sizable fraction of the inflows into China represents round-tripping of capital from the mainland to take advantage of tax preferences for foreign investors, there is no dispute that inflows have been enormous.

9. Women account for 60 percent of Filipino emigrants and dominate flows to Asian destinations, outnumbering men 12 to 1. Male Filipino migrants are more prevalent in the Middle East as contract labor (Lim and Oishi 1996).

10. Using data from individual workers, Tzannatos (1995) determined that reduced gender discrimination in manufacturing accounted for 96 percent of the total improvement in the ratio of female to male earnings in Thailand, 53 percent in Indonesia, and 23 percent in the Philippines.


12. Provident funds are a form of pension scheme that involves forced savings of workers for their old age with entitlements based on individual contributions.

13. As noted in Table 1, the Democratic Republic of Korea is a middle-income country at the official exchange rate, which likely overestimates real income levels.

14. The family farm is the most effective form of labor organization for agriculture in many economies. It leads to large gains from closer links between effort and return and offers the best-known solution to the problem of monitoring effort under agricultural production. In very few agroprocessing activities are economies of scale large enough to outweigh these advantages (Binswanger, Deininger, and Feder 1993).

15. This is based on a simple regression of urban shares against incomes (in purchasing power parity terms) and assumes that China’s real per capita income will grow at 6 percent a year between 1995 and 2020.

16. The case for such a “multipillar” system of old age security is developed in World Bank 1994a. Specific design features are a function of the situation and preferences of each country. A recent World Bank study on China discusses the issues (World Bank 1996a).

References


INvolving WORKERS in EAST ASIA'S GROWTH


HEADQUARTERS

1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.

Telephone: (202) 477-1234
Facsimile: (202) 477-6391
Telex: MCI 64145 WORLD BANK
MCI 248423 WORLD BANK
Cable address: INTBAFRA D WASHINGTON DC
E-mail: books@worldbank.org

EUROPEAN OFFICE

66, avenue d'Iéna
75116 Paris, France

Telephone: (1) 40.69.30.00
Facsimile: (1) 40.69.30.66
Telex: 640651

TOKYO OFFICE

Kokusai Building
1-1, Marunouchi 3-chome
Chiyoda-ku, Tokyo 100, Japan

Telephone: (3) 3214-5001
Facsimile: (3) 3214-3657
Telex: 26838