Institute of South East Asian Studies

VIEWPOINTS

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The jobs issue: Asian giants must work at it

By Michael Richardson

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How fast do Asia's major emerging economies – China, India and Indonesia – need to grow to provide enough jobs to keep unemployment from rising and challenges to stability at bay? The question is critically important as Asia enters 2009 in the grip of a deepening global recession. On a visit to Singapore, World Bank president Robert Zoellick issued a stark warning: "We've gone from a financial crisis to an economic crisis, and in early 2009 we'll see an unemployment crisis."

The Asian Development Bank recently issued an update on the region's prospects. It noted that international trade was slowing rapidly and would barely expand next year, creating difficulties for export-oriented regional economies, with knock-on effects for industrial output, employment and poverty alleviation.

Still, the ADB offered a relatively rosy outlook. China would grow by 9.5 per cent this year, before slowing to 8.2 per cent in 2009. The comparable figures for India are 7 per cent in 2008 and 6.5 per cent in 2009, and for Indonesia, 6.1 per cent and 5 per cent. Developing Asia as a whole is projected to grow by 5.8 per cent in 2009, down from 6.9 per cent this year. But many economists believe these forecasts are too optimistic and will be revised downwards by the ADB before long.

International Monetary Fund head Dominique Strauss-Kahn said a few days ago that the IMF could cut its 2009 growth forecast for China to around 5 per cent, the slowest rate for many years. India's central bank believes growth there next year will tumble to 5.5 per cent or less, the lowest since 2002. Indonesia's Finance Minister, Sri Mulyani Indrawati, says Southeast Asia's largest economy looks set to slow to between 4.5 per cent and 5.5 per cent in 2009.

Many advanced economies already mired in recession would love to recover at these rates. Indeed, turbo-charged growth has been seen by some analysts as a feature of Asia's economic landscape that sets it apart from other regions.

However, much of this growth is essential, first to absorb large numbers of new entrants in the work-force and, second, to reduce the ranks of unemployed and underemployed. China, for example, is estimated to have 130 million migrant workers, about 10 per cent of the population, who have come from the countryside to urban centres looking for better-paid work.

As export orders fall, firms in China, India and Indonesia are cutting production or closing altogether, laying off tens of thousands of staff or putting them on shorter working hours. Worker protests are proliferating as redundancies and pay cuts underscore the gap between rich and poor that widened during the growth years. Urban unemployment in China has risen to about 9.4 per cent of the workforce, double the official figure, the Chinese Academy of Social Sciences reported earlier this month. In Indonesia, where the unemployment rate is at least 10 percent, some employer groups are predicting that as many as 1.5 million workers will have lost their jobs by the end of 2009.

China says it needs 8 per cent annual growth, after adjustment for inflation, just to provide jobs for the seven million or so young people entering the labor-force. A recent World Bank study concluded that China actually needs to grow by about 9.5 per cent to keep unemployment steady. For Indonesia, the comparable figure is at least 6 per cent. For India, a younger country than China, growth needs to be at least 10 per cent to cope with a work-force expanding by 14 million a year, about one-quarter of the world's new workers.

Until now, China has done remarkably well in expanding employment. Since reform and opening began 30 years ago, the economy has grown at an annual average of 9.8 per cent, lifting some 200 million people out of poverty. The rate for India was 6 per cent between 1992 and 2002. In the last five years, it has averaged 8.8 per cent. Indonesia's performance has been somewhat slower but was picking up. Growth had accelerated to a 10-year high of 6.3 per cent in 2007.

What happens if these three big emerging Asian economies slow sharply in 2009 and recovery afterwards is sluggish? The big fear is that they will descend into a spiral of rising unemployment, social unrest and protests that could undermine stability and make recovery more difficult. Interest rate cuts, stimulus packages and other measures by the governments of all three countries are intended to cushion the downturn. Hopefully, they will be successful.

However, the French historian Alexis de Tocqueville noted that revolution comes not when conditions are at their worst but when they have been improving steadily, and the improvement suddenly stops. China is on guard. The top economic planner, Zhang Ping, chairman of the National Development and Reform Commission, warned in November that "excessive production cuts and closures of businesses will cause massive unemployment, which will lead to instability." China's President, Hu Jintao, said on 18 December that preserving stability was the "overriding task" of the party and government.

As 2009 unfolds, comparisons will inevitably be made between the way China's authoritarian model of development handles the slowdown and the way Indian and Indonesian democracies cope. The latter both face national elections amidst the economic slump. This may make their management task even more complex than the challenge facing China. But whatever their political systems, Asian countries will have to deal in 2009 with the political repercussions of sagging economies and rising unemployment.

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