

# THE WORKING POOR IN FAST GROWING ASIAN COUNTRIES

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## Abstract

The paper discusses the relationship between the poverty and employment in the fastest growing Asian countries in the years 2001-2018. The study covers ten Asian countries and is based on the data retrieved from the ILOSTAT and World Bank Database. The aim of the paper is to show reasons behind the working poor (employed persons living in poverty) in Asian countries. Over the past decades, Asian countries have experienced fast economic growth and structural transformation. However, employment opportunities have not been keeping up with rapid economic growth. A lot of workers in the fastest growing Asian countries are still in extreme or moderate working poverty. A large proportion of workers lack job security, written contracts, and income stability. Self-employment which is often associated with poverty, accounts for around 80 per cent in Lao PDR and over 70 per cent in India and Bhutan. Employment in agriculture in Lao PDR, Bhutan, Tajikistan, and Myanmar is reported at more than 50 per cent. Besides, in some Asian countries a large part of the non-agricultural labour force has been still working in the informal sector. Between 2001 and 2018, the biggest shifts in employment categories were observed in Cambodia, China, and Myanmar.

**Key words:** inclusive growth, poverty, employment, working poor

**JEL Code:** O57, I30, J40.

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## Introduction

Over the past two decades, several countries in Asia have experienced rapid economic growth and structural transformation. They implemented different strategies for achieving and sustaining economic growth. The fastest growing Asian countries substantially improved the quality of life of the citizens and reduced poverty. However, employment opportunities in these countries have not been keeping up with fast economic growth. A lot of Asian workers are still in extreme or moderate working poverty.

The aim of the paper is to show reasons behind the working poor (employed persons living in poverty) in the fastest growing Asian countries. The study comprises the following ten Asian countries: Bhutan, Cambodia, China, India, Lao PDR, Mongolia, Myanmar, Tajikistan, Turkmenistan, and Uzbekistan. Over the period from 2001 to 2018, an average annual GDP growth rate in these countries ranged from nearly 7 per cent in India to about 10 per cent in Myanmar. The study is based on the data retrieved from the ILOSTAT and World Bank Database.

There are a lot of studies on economic growth and development in Asia. Issues in economic growth in Asian countries were discussed for instance by Than (2015), Damodaran (2015), Leng (2017), Nowak (2017, 2018), Jian et al. (2020) and in many the World Bank's reports. The main contribution of the paper is a presentation of the relationship between the poverty and employment in the fastest ten growing Asian countries in the years 2001-2018.

## 1 The fastest growing Asian countries in the 21st century

In the years 2001-2018, several Asian countries had high GDP growth rates. The highest GDP growth was observed in Myanmar and China. The average annual GDP growth rate in these countries was more than 9 per cent. Slightly lower economic growth was recorded in Turkmenistan. Moreover, the annual GDP growth rate in Tajikistan, Cambodia, Lao PDR, Bhutan, and Mongolia averaged above 7 per cent. Economies of Uzbekistan and India grew at nearly 7 per cent per annum. The countries experienced rapid GDP growth after the 2008 financial crisis, too.

Over the period from 2001 to 2018, GDP per capita growth in the group of the fastest growing Asian countries ranged from slightly above 5 per cent (Uzbekistan and India) to more than 8 per cent (Myanmar and China). After 2008, the highest GDP per capita growth rates were recorded in China followed by Turkmenistan and Myanmar (Table 1).

**Tab. 1: Average annual GDP and GDP per capita growth in Asian countries, 2001-2018**

Country	GDP growth (%)		GDP per capita growth (%)	
	2001-2018	2009-2018	2001-2018	2009-2018
Myanmar	9.7	7.5	8.8	6.7
China	9.2	7.9	8.6	7.4
Turkmenistan	8.2	8.7	6.7	6.8
Tajikistan	7.7	6.7	5.4	4.3
Cambodia	7.6	6.3	5.9	4.7
Lao PDR	7.3	7.5	5.6	5.9
Bhutan	7.2	6.0	5.7	4.8
Mongolia	7.2	6.9	5.5	4.9

Uzbekistan	6.9	7.1	5.2	5.1
India	6.8	7.1	5.3	5.8

Source: Own calculations based on WBOD (2020).

A rapid economic growth in a few fast growing Asian countries has been generated through extractive sectors. Substantial reserves of natural gas allowed Turkmenistan to achieve a high economic growth in this century. High prices for hydrocarbons and increasing extraction capacity were main drivers of GDP growth. Turkmenistan's economy heavily depends on fluctuations in global prices for primary energy products and the economic situation in China which is the largest market for Turkmenistan's hydrocarbon exports. Public sector and state-owned monopolies play the most important role in the Turkmen economy and formal labour market. The economy has been dominated by hydrocarbons and construction. However, the hydrocarbon sector provides employment to about 2 per cent of the labour force. Domestic non-state enterprises are active mainly in agriculture, construction, and manufacturing.

The Mongolian economy has been growing fast due to increase in mining and mineral exports (mineral fuels including oil, precious metals, copper). In the first decade of this century, economic growth was accelerated also by rapidly increasing prices of gold and copper. Mongolia's economy depends on the economic situation in China, its major trading partner. About 90 per cent of Mongolia's exports are directed to China. The slowdown in the Chinese economy and the fall in commodity prices resulted in low Mongolia's economic growth in the years 2015-2016.

Economic growth in Uzbekistan was mainly generated by exports of raw materials (including natural gas and gold) and large public investment in the mining industry, hydroelectric power plants, road infrastructure, and housing. The Uzbek economy relies on mining and cotton production. Since 2017, Uzbekistan has been implemented market-oriented economic reforms (Nowak, 2019). Large state-owned enterprises still dominate the formal sector. Most jobs are in small-scale services and agriculture.

On the demand side, exports of raw materials (aluminium, gold, and cotton) and domestic private consumption have been the main source of economic growth in Tajikistan. However, consumption was primarily financed by remittances. Tajikistan's economy is dependent on migration. Between 2001 and 2014, remittances have been a major engine of economic growth in this country. Vast majority of remittances finance basic household

consumption but they are also used to develop small and medium enterprises. It is worth noting that in Tajikistan still lack favourable conditions for the investment of remittances.

Lao PDR's economy relies on the exploitation of natural resources. The country achieved a high rate of GDP growth in the 21st century mainly due to investment in mining and hydropower. Construction of the hydroelectric power plant on the Mekong River and foreign investment in copper and gold mining has been stimulated the economy. Economic growth in Lao PDR may be sustained by an increase in electricity generation, construction, and tourism-related services. Since 2017, Lao PDR has been implemented a national Rural Employment Strategy to increase decent employment opportunities in rural areas.

The Bhutanese economy is mostly rural and agrarian. Fast economic growth in Bhutan was generated by development of hydropower generation capacity and exports of electricity to India. The country has followed a public-sector-led development path. The public sector offers decent earnings and job security. However, it accounts for about a fifth of all jobs in Bhutan (WB, 2016) The hydropower sector employs less than 1 per cent of the Bhutanese labour force.

The exploitation of natural resources plays important role in Myanmar's economy, too. Recently, except the natural gas and oil industry, the country has been also developing labour intensive sectors such as food processing, textile and clothing industries. The link between rapid economic growth and employment in the country was quite weak prior to 2011. Natural resources were an important driver of economic growth but they generated little employment. Reforms since 2011 accelerated capital accumulation and Myanmar experienced job creation in manufacturing and services. However, still the vast majority of jobs is low-productivity and low-paid in agriculture, household enterprises, and small firms (Cunningham, Muñoz, 2018).

In the years 2001-2018, Cambodia experienced export-led growth. the country exports mainly clothing, footwear, precious stones, timber, and rubber. The Cambodian economy depends on a few sectors such as garments, agro-processing, tourism, and construction. Export-oriented manufacturing growth has generated jobs in Cambodia. However, domestic-owned firms employ on average a few workers while in foreign-owned firms on average more than 100 people are employed.

Public investment in infrastructure and export-oriented production were main sources of fast economic growth in China. Since 2015, the Chinese economy has been slowing down due to changes in economic policy. According to the "new normal" policy, economic growth

in China should more balanced and generated to a greater extent by internal demand. Besides, the economic growth has to stimulate the development of services sector, innovation, and private sector (Nowak, 2019).

Services are of vital importance for India's economy. Between 2001 and 2017, value added in Indian services sector was growing at 8 per cent annually. The computer software sector, computer services, ITC, business and financial services contributed the most to the high growth rate of services. Besides, India dominated the global outsourcing market in the ITC sector and computer services. The country has comparative advantage in business software. India quickly went from agriculture to services. However, services is the second largest employer after agriculture.

## **2 Employment and poverty in the fastest growing Asian countries**

Over the past decades, Asian countries have experienced rapid structural transformation. Employment has been moved away from agriculture into sectors with higher added value as a result. Between 2001 and 2018, the share of agriculture in total employment dropped by more than 35 percentage points in Cambodia and over 20 percentage points in China and Mongolia. In Lao PDR, India, and Uzbekistan there has been also a significant shift of employment away from the agricultural sector into services and industry. Despite the changing structure of the economy, agriculture still accounts for more than a half of the total employment in Lao PDR and Bhutan and nearly 50 per cent in Myanmar. Besides, the agricultural sector employs more than 40 per cent of total working population in Tajikistan and India. Services provide employment to the largest number of people in Mongolia, Uzbekistan, China, and Cambodia. In 2018, they alone absorbed a half of the Mongolian employing workers and accounted for over 40 per cent of total employment in Uzbekistan and China. In the fastest growing Asian countries employment in industry is low. For instance, in Bhutan and Lao PDR slightly more than 10 per cent of the workforce are employed in this sector. In 2018, employment in industry was reported at over 40 per cent in Turkmenistan and at nearly 30 per cent in Uzbekistan, Cambodia, and China. Between 2001 and 2018, the share of industry in total employment increased most in Cambodia (17.3 percentage points). Employment in the industrial sector fell slightly in Tajikistan (Table 2).

**Tab. 2: Employment in Asian countries, 2001 and 2018**

Country	Employment in agriculture (% of total employment)		Employment in industry (% of total employment)	
	2001	2018	2001	2018
Bhutan	63.6	56.0	8.8	10.5
Cambodia	68.9	33.7	11.0	28.3
China	50.0	26.1	22.3	28.2
India	59.3	43.3	16.3	24.9
Lao PDR	80.9	63.2	4.8	11.6
Mongolia	48.3	28.0	13.7	19.2
Myanmar	61.2	49.7	13.6	16.0
Tajikistan	59.1	45.8	16.3	15.5
Turkmenistan	30.0	20.3	36.1	42.2
Uzbekistan	39.4	24.6	22.2	29.0

Source: WBOD (2020).

For the large part of population in the fastest growing Asian countries unemployment is not an option. The unemployment rate is very low in countries such as Lao PDR (0.6 per cent in 2018), Cambodia (0.7 per cent), and Myanmar (1.5 per cent). The average unemployment rate remains low in Bhutan (2.3 per cent), Turkmenistan (3.8 per cent), and China (4.3 per cent). An unemployment rate was about 5 per cent in India and 6 per cent in Uzbekistan and Mongolia. The highest unemployment rate in 2018 was estimated in Tajikistan (11.1 per cent) (ILOSTAT, 2020).

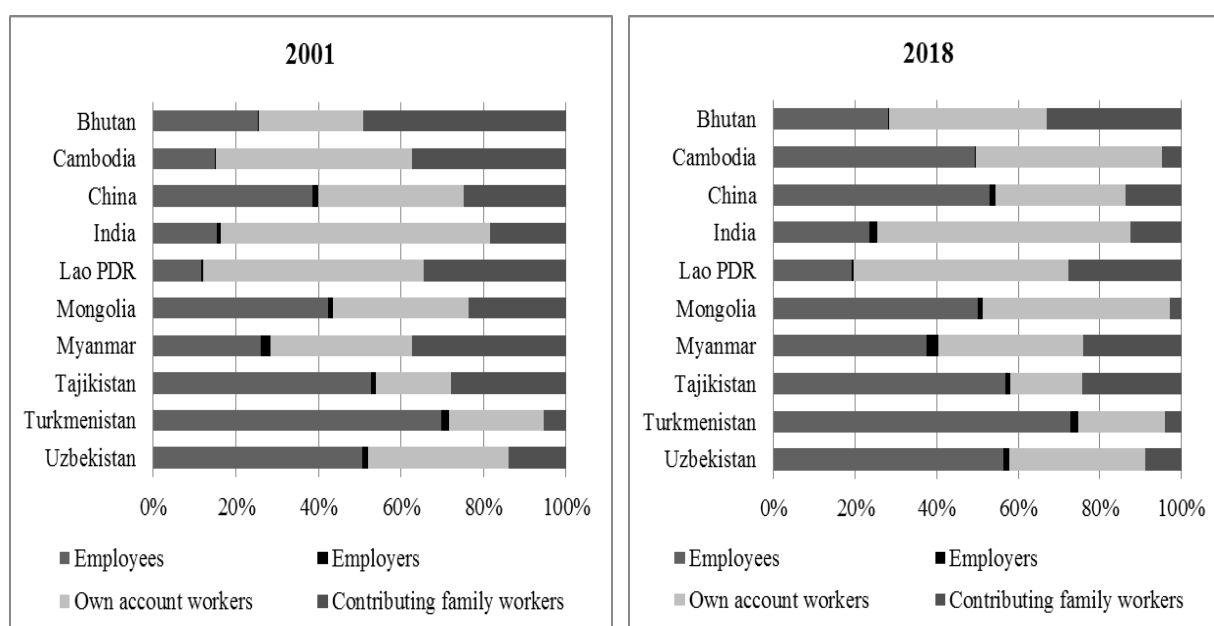
Despite the low average unemployment rate, the labour markets in the fastest growing Asian countries are not functioning well. A large proportion of workers in the Asian countries lack job security, written contracts, and income stability. Most people have jobs that are less well-paid or below their skill levels (ILO, 2019). In 2018, own-account workers and contributing family workers together accounted for around 80 per cent in Lao PDR and over 70 per cent in India and Bhutan. Moreover, vulnerable employment<sup>1</sup> represented over a half of total employment in Myanmar and Cambodia. Self-employment in the Asian countries is often associated with poverty. People are forced to be self-employed because they have no access to wage employment.

Between 2001 and 2018, the biggest shifts in employment categories were observed in Cambodia, China, and Myanmar. Vulnerable employment in Cambodia declined by 34.3 percentage points. China and Myanmar reduced it by 14.3 and 12.1 percentage points,

<sup>1</sup> The employed group is broken down into two subgroups: wage and salaried workers (employees) and self-employed workers. The self-employed group covers employers (self-employed workers with employees), own-account workers (self-employed workers without employees), and contributing family workers. Own-account workers and contributing family workers are called vulnerable employment.

respectively. The countries made a significant progress in reduction of unpaid family work. In 2001, wage and salaried workers stood at 50 per cent or more of total employment only in the former Soviet republics. At the end of the analysed period, employees accounted for a half of workers also in China, Mongolia, and Cambodia. This category of employment is associated with greater income security and better working conditions. Overall, in the fastest growing Asian countries, except Bhutan and Mongolia, the dominant trend in the employment categories is the increase in employees. In Bhutan and Mongolia the category own account workers increased the most (Figure 1).

**Fig. 1: Employment categories in the fastest growing Asian countries, 2001 and 2018**



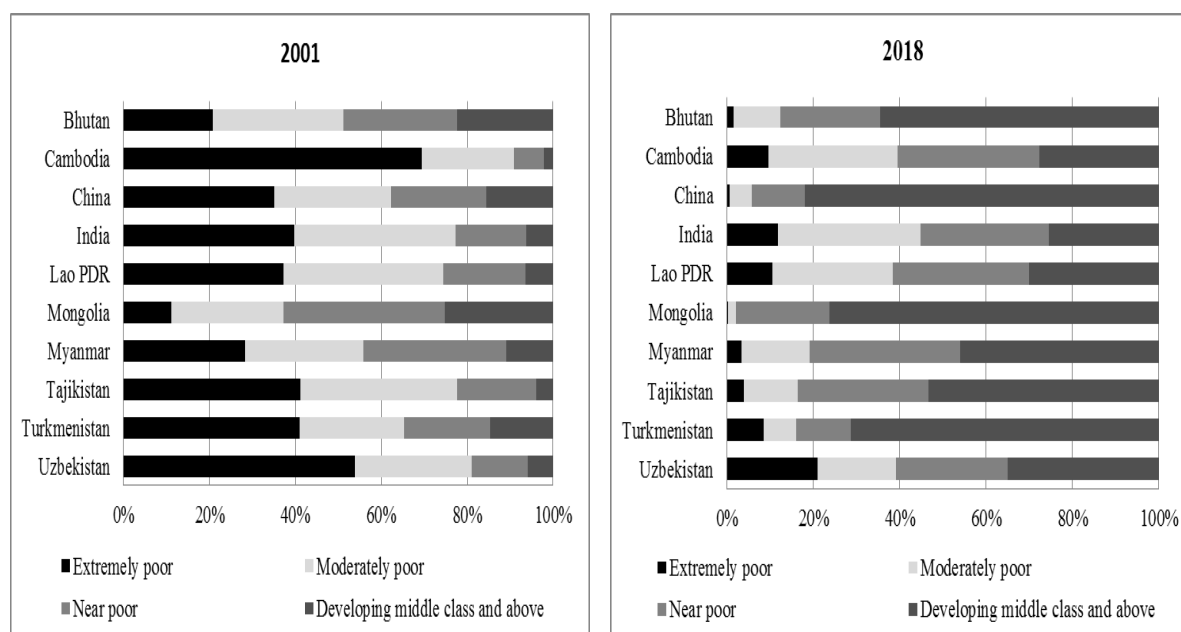
Source: Own calculations based on ILOSTAT (2020).

A lot of workers in the fastest growing Asian countries are still in extreme or moderate working poverty<sup>2</sup>. Although people are employed they are not able to lift themselves and their families above the poverty threshold. In 2018, over 21 per cent of the Uzbek total employment and nearly 12 per cent of India's workers were classified as extreme working poor. What's more, the extreme working poverty rate stood at over 9 per cent in Lao PDR and Cambodia and about 9 per cent in Turkmenistan. In general, nearly 45 per cent of employed

<sup>2</sup> International Labour Organization classified economic classes in 2018 in the following way: extreme working poor: per capita household consumption below \$1.90 a day at PPP in 2011; moderate working poor: between \$1.90 and \$3.20; near poor: between \$3.20 and \$5.50, and developing middle class and above: \$5.50 or more a day (ILOSTAT, 2020).

people in India live in households that fall below the poverty threshold of 3.20\$ a day. Moreover, about 40 per cent of workers in Cambodia, Uzbekistan and Lao PDR are still living in extreme or moderate poverty. On the other hand, extreme working poverty has been almost eradicated in Mongolia and China. It is relatively low in Bhutan (1.5 per cent), Myanmar (3.3 per cent), and Tajikistan (3.9 per cent). In the years 2001-2018, the biggest reduction in extreme and moderate working poverty was recorded in Tajikistan (61.3 percentage points) and China (56.6 percentage points). It is worth noting that Cambodia has seen the most significant decline (59.9 percentage points) in extreme working poverty. Changes in income-employment in the fastest growing Asian countries are presented in Figure 2.

**Fig. 2: The working poverty rate in the fastest growing Asian countries, 2001 and 2018**



Source: Own calculations based on ILOSTAT (2020).

In some Asian countries a large part of the non-agricultural labour force have been still working in the informal sector. For instance, informal workers accounted for 80.3 per cent of total non-agricultural employment in India and 78.9 per cent in Myanmar in 2018. Moreover, informal employment stood at 75.5 per cent in Lao PDR in 2017 (WBOD, 2020). Nearly 90 per cent of the employed population in 2016 were engaged in non-agricultural informal employment in Cambodia, 70.5 per cent in Tajikistan, and 53.5 per cent in China (ILO, 2018). By contrast, 30.9 per cent of the total Mongolian non-agricultural employment earned their livelihoods in the informal economy in 2018 (WBOD, 2020). Informal economy in Mongolia



emerged with transition to the market-oriented economy. The share of informal employment in non-agriculture employment in Turkmenistan was estimated at 18 per cent for men and 29 per cent for women in 2018 (VNRT, 2019). About 80 per cent of all workers in Bhutan were employed in the informal sector in 2014 (WB, 2016). Uzbekistan had nearly 60 per cent rate of informal employment in 2018. Moreover, 14 per cent of labour force found jobs abroad (WB, 2019).

## **Conclusion**

In several fastest growing Asian countries employment opportunities are not keeping up with a rapid economic growth. For instance, the sectoral employment structure in Uzbekistan has remained almost unchanged after the 2008 financial crisis. India has the services driven economy but the contribution of services to employment is lower than agriculture. The services and industrial sector contribute over 80 per cent in overall gross value added in Bhutan, India, Lao PDR, and Tajikistan (WBOD, 2020). However, agriculture is the single largest employment generator in these countries.

A high vulnerable employment in agriculture and a large part of the non-agricultural labour force working in the informal sector contribute considerably to high working poor rates in India, Lao PDR, and Cambodia. In Bhutan more than half of population lives in rural areas where labour market consists of small-scale and subsistence agriculture and related industries. As a result, the ratio of informal employment to total employment remains high. Informal workers are more likely to live in poverty.

Job creation in Turkmenistan needs diversifying and restructuring the economy. Besides, stimulating the development of small and medium-sized enterprises and increasing employment in private sector would reduce working poor ratio. Uzbekistan needs to develop a more flexible labour market that will allow overcoming structural mismatches of labour supply and demand. Moreover, the country has to create employment opportunities especially in rural areas due to restrictions on internal migration. Besides, Uzbekistan has to use incentives for starting a business and improve an environment for business start-ups and entrepreneurs. Tajikistan has also to expand the formal private sector in its economy to generate more and better jobs. Myanmar needs not only to create more jobs but makes them more inclusive. To achieve these goals the country has to implemented active labour market programmes.

The working poverty rates in Mongolia and China are the lowest in the group of the fastest growing Asian countries. However, Mongolia needs labour market reforms to decrease a high rate of under-employment and to create employment opportunities for talented individuals who are constrained to work in low productivity jobs in informal sector or traditional animal husbandry.

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