



**ECOSOC Annual Ministerial Review
Regional Preparatory Meeting for Asia and the Pacific
Kyoto, Japan, 7 December 2011**

“Promoting productive capacity, employment and decent work in Asia and the Pacific: a regional approach to sustained, inclusive and equitable growth and achieving the MDGs”¹

Background Note

Executive Summary

Building a Sustainable Future with Decent Work in Asia and the Pacific

Recent events underscore the imperative of moving towards new, more efficient patterns of growth with social justice in Asia and the Pacific. An essential component of such a growth model is decent work: growth underpinned by broad-based increases in productivity, investment in human capital and social protection, respect for rights at work and strong labour market institutions.

The region’s formidable economic performance over the past decades has lifted millions of people out of poverty, but has been accompanied by increasing inequality, persistent vulnerability and pockets of poverty. In part, these deficits are a result of the insufficient generation of productive and quality jobs in the region. This is a particular concern for youth, who on average are more than three times as likely as adults to be unemployed, as well as women, who continue to face tremendous barriers in the labour market.

An untapped source for increasing productivity and quality jobs are micro, small and medium sized firms (MSMEs). MSMEs could prosper with a more conducive regulatory environment, better access to credit and greater investment in skills development. Another source is green jobs, which can help address the twin challenges of employment creation and climate change. As countries shift to more efficient use of natural resources and a low-carbon future, social dialogue must ensure that the transition is equitable.

Countries in the region are highly prone to natural disasters, and effective response measures should incorporate employment-focused recovery. Given the persistence of natural and man-made crises and vulnerabilities due to economic transformation and volatility, building a social protection floor based on fiscal sustainability is more critical than ever.

¹ Prepared by ILO in collaboration with ESCAP.

Inclusive labour markets based on fundamental principles and rights at work and social dialogue would help ensure that the benefits of the region's economic prosperity are shared broadly. Moreover, stronger regional cooperation would create a tremendous opportunity for the region to show leadership on fairer, more inclusive, sustainable globalization and to promote decent work and social justice.

In this context, the United Nations General Assembly and the Economic and Social Council must increase efforts to ensure that the complementarities and interdependencies between employment policy and sound economic, social and environmental policies are considered within its various agenda items.

Promoting Productive Capacities

A new multi-layered strategy for sustainable development should pay special attention to building productive capacities, which has been recognized as a top priority particularly for least developed countries. For countries to build their productive capacity, they need to produce and trade new and more sophisticated products. Estimates show that the majority of the countries in the Asia-Pacific region have below average levels of productive capacities. A pragmatic strategy for countries to increase their productive capacities is for the State and the private sector to coordinate their efforts to steer innovation towards increasingly more complex products that would serve as better platforms for further diversification. That requires macroeconomic, industrial, trade, finance and infrastructure policies that promote productive employment, strategic diversification and the evolution of the economies. All of this needs to be supported by enhanced and targeted development assistance, development finance, market access, and South-South cooperation.

Achieving MDGs in Asia and the Pacific region

The Asia-Pacific region as a whole has made impressive gains on many MDG indicators, especially in reducing poverty. Between 1990 and 2005, the number of people living on less than \$1.25 a day fell from 1.5 billion to 954 million – all the more impressive given that over the same period the region's population increased by some 800 million. As a result the region as a whole is on track to achieve the target of halving the proportion of people living in poverty. The region is also on track to meet another key target: ensuring universal access to primary school.

Meanwhile, on certain other indicators Asia-Pacific has already achieved the MDG targets. These include: reducing gender disparities in primary and tertiary education, stopping the spread of HIV/AIDS and tuberculosis, reducing consumption of ozone-depleting substances, and halving the proportion of people without access to safe drinking water.

Despite such gains, the region still lags in some important areas. It has been slow in ensuring that girls and boys reach the last grade of primary education, for example. It is not doing well, either, in reducing hunger nor on other measures of health like reducing child mortality and improving maternal health. Critically, it has been slow in providing basic sanitation, too. To reach all these goals between now and 2015, countries in Asia and the Pacific need to accelerate their efforts and focus on key, priority areas.

Structure of the Background Note

This background note includes three main sub-sections: (I) Building a Sustainable Future with Decent Work; (II) Promoting Productive Capacities; and (III) Achieving MDGs in Asia and the Pacific Region. Finally, sections IV and V conclude with a set of policy recommendations and open questions intended to spark further discussion.

I. Building a Sustainable Future with Decent Work in Asia and the Pacific²

Recent events (where?) underscore the importance of moving towards new, more sustainable patterns of growth with social justice. This requires a multi-layered strategy embracing both policy development and action “on the ground”, founded on the dynamism of markets, the power of social dialogue and, fundamentally, on the dignity of work.

The Asia-Pacific region is poised to account for half of global output, trade and investment within a few decades. Alongside such rapid economic growth, there have also been significant achievements in a number of other areas. Yet the region is also characterized by uneven productivity growth, widening inequalities, limited social protection, persistent vulnerability and informality of employment, and restrictions on freedom of association and collective bargaining. The fragile global economic outlook, moreover, means that future growth must rely more on domestic demand and deeper regional integration and cooperation.

If the dynamism, energy and creativity that is so manifest in this region is to be harnessed for a sustainable future, new patterns of growth which are economically, socially and environmentally efficient are required. Integrated policy packages would better address the region’s employment and social challenges and support its move towards balanced and sustainable development with equitably shared prosperity.

An essential component of such a growth model is decent work: growth underpinned by broad-based increases in productivity, investment in human capital and social protection, respect for rights at work and strong labour market institutions. In Asia and the Pacific, governments and their social partners need to act now to set in motion the reforms necessary to rebalance growth and pursue sustainable development in line with the fundamental aspirations of their people.

Efficient growth, social justice and shared prosperity

a) Reducing inequality, addressing vulnerability

The region’s formidable economic performance in recent decades has lifted millions of people out of poverty and improved life quality. But the region’s rapid growth has been accompanied by increasing inequality and persistent vulnerability and pockets of poverty. This threatens social cohesion and potentially undermines long-term development prospects. There are pervasive and rising income inequalities:

- Between 2000 and 2009, output per worker in Asia and the Pacific rose ten times faster than in the rest of the world.³ However, wage increases and improved working conditions have not kept pace with productivity growth.

² This section is based on ILO: *Building a Sustainable Future with Decent Work in Asia and the Pacific: Supplement to the Report of the ILO Director-General* (Geneva, 2011), available at: http://www.ilo.org/global/meetings-and-events/regional-meetings/asia/aprm-15/reports/WCMS_165068/lang-en/index.htm.

³ ILO: *Building a sustainable future with decent work in Asia and the Pacific, Report of the Director-General, 15th Asia and the Pacific Regional Meeting* (Geneva, 2011), p. 22.

- During this period, income inequality (as measured by the Gini coefficient) either remained high or increased in many countries, including in China and India where income disparity widened despite high economic growth.⁴
- Gender pay gaps persist, with women's wages ranging anywhere from 55 to 90 per cent of those of men.⁵

The countries of Asia and the Pacific, especially East and Southeast Asia, have made huge strides in reducing the proportion and number of workers living in severe poverty.⁶ However, hundreds of millions of workers remain vulnerable to falling back into poverty in the event of an external economic shock, accident, ill health or family emergency. Equally, vulnerability is more than simply an income issue:

- Some 1.1 billion people (60 per cent of the region's workers) are in vulnerable employment, typically involving poor quality, low-paid jobs with poor working conditions and intermittent or insecure work arrangements.⁷
- An estimated 114 million children were working in 2008, 48 million of whom faced hazardous conditions on the job.⁸

Maintaining the momentum of strong growth requires broad-based productivity growth as well as a more equitable sharing of its benefits. Ensuring that wages keep pace with productivity gains would allow domestic consumption to act as a stronger engine of growth.

b) Social protection: promoting efficient growth by investing in people

Social protection is an investment in both human capital and social and economic development, as well as a human rights issue. Social protection also fortifies both societies and individuals against dangerously destabilizing economic shocks, acting as a buffer against falling incomes in the process.

For these reasons, all countries should focus on building a social protection floor on the basis of a minimum universal entitlement to social security within a context of fiscal sustainability. The social security provisions and benefits of this floor would vary from country to country but would generally include basic healthcare and measures to ensure income security.

Asian countries have tended to spend less than other regions on social protection. Measured as a percentage of GDP, the public health and social security spending of Asia and the Pacific is low – an estimated 5.3 per cent, compared with 10.2 per cent in Latin America and the Caribbean.⁹ These low levels of public spending in Asia often stem from the enduring

⁴ Isabelle Ortiz and Matthew Cummins: *Global inequality beyond the bottom billion: A rapid review of income distribution in 141 countries*, Social and Economic Policy Working Papers (New York, UNICEF, April 2011), p. 27; and World Bank: *World Development Indicators* (Washington, DC, 2011).

⁵ ILO: *Asia-Pacific labour market update* (Bangkok, December 2011, forthcoming).

⁶ United Nations: *The millennium development goals report 2010* (New York, 2010), pp. 6-11; and ILO: *Building a sustainable future with decent work in Asia and the Pacific*, op. cit., pp. 21-22.

⁷ ILO: *Building a sustainable future with decent work in Asia and the Pacific*, op. cit., p. 4.

⁸ ILO: *Accelerating action against child labour*, Report of the Director-General, International Labour Conference, 99th Session 2010 (Geneva, 2010), p. 10.

⁹ ILO: *World social security report 2010/2011: Providing coverage in times of crisis and beyond* (Geneva, 2011), Table 8.1, p. 81.

perception that universal protection is unaffordable, but there is evidence that this is not necessarily the case:

- In India, for instance, a basic social protection package covering over 300 million informal economy workers could be provided for less than 0.5 per cent of GDP.¹⁰
- In Viet Nam, meanwhile, the results of an “Assessment Based National Dialogue” exercise show that an additional 2 per cent of GDP would be needed to establish a social protection floor for all.

Many countries in the region have already made significant progress in extending social protection through both contributory and non-contributory schemes, such as China, Indonesia, Nepal, Pakistan, Thailand and Viet Nam, among others. It is thus vital to build upon these initiatives and support the gradual introduction and extension of a social protection floor across the entire Asia-Pacific region.

c) Promoting inclusive labour markets that meet international standards

Upholding fundamental principles and rights at work provides a basic framework for market forces to operate efficiently and fairly. It ensures that the benefits of the region’s economic transformation are shared broadly. However, progress in the ratification of labour standards has been modest, and in some cases is even in retreat.

- Globally, ILO member States have on average ratified 42 Conventions, while member States in Asia and the Pacific have ratified 24 and Pacific Island countries 12 (although several of these states are new ILO members with a small number of more recent ratifications).¹¹
- Worldwide, more than 73 per cent of ILO member States have already ratified the eight fundamental Conventions, compared with less than one-third in Asia and the Pacific.¹²

In order to secure a better balance between labour market flexibility and employment security – especially pertinent in times of structural change – governments need to pay more attention to, and invest more in, labour law reforms. Social dialogue, including collective bargaining, should be one of the key tools for negotiating and agreeing on labour law reforms and flexibility at the workplace.

One pressing constraint on labour governance in the region is the often limited capacity of social partners to negotiate, a reality worsened by the fact that collective bargaining coverage remains limited. To some extent this is the result of restrictive labour laws combined with a lack of respect for international labour standards in some areas. What is

¹⁰ Government of India: *The Challenge of Employment in India: An Informal Economy Perspective*, Report of the National Commission for Enterprises in the Underground Economy, Vol. 1 (New Delhi, April 2009).

¹¹ See: ILO-APPLIS: <http://webfusion.ilo.org/public/db/standards/normes/appl/index.cfm>.

¹² The eight fundamental Conventions include: Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87); Right to Organize and Collective Bargaining Convention, 1949 (No. 98); Forced Labour Convention, 1930 (No. 29); Abolition of Forced Labour Convention, 1957 (No. 105); Minimum Age Convention, 1973 (No. 138); Worst Forms of Child Labour Convention, 1999 (No. 182); Equal Remuneration Convention, 1951 (No. 100); Discrimination (Employment and Occupation) Convention, 1958 (No. 111).

clear is that the path constructive labour relations is often a rocky one; witness the dramatic rise in disputes stemming from tensions between rapidly changing labour market and workplace conditions, and the often slow pace of reform.¹³

Furthermore, in the field of labour administration, poor resourcing and large and growing informal economies are posing formidable challenges to labour inspection and the safeguarding of the fundamental right to associate and bargain freely.

d) Supporting job-rich growth

Between 2010 and 2020, Asia-Pacific must generate some 205 million jobs simply to keep pace with its expanding labour force (even before counting those required by the 85 million people currently unemployed).¹⁴ But the greater and, perhaps, even more critical task is not the mere creation of sufficient jobs but rather to better generate quality jobs (i.e. jobs which offer decent wages and working conditions).

The creation of quality jobs is therefore a key ingredient of Asia's future competitiveness and shared prosperity. Without enhancing productivity (and through it employment quality), low-income countries cannot improve competitiveness and efficiency to reach middle-income status; nor can middle-income countries sufficiently diversify production to move up the value chain.

However, the majority of working women and men in the region still earn their living through self-employment or helping family members. Also, informal employment, which disproportionately affects women, remains a major form of employment in developing parts of Asia.¹⁵ Workers in such jobs typically lack legal or social protection and are unlikely to have representation in the workplace.

Another concern is that while developing Asia's labour productivity has grown very fast, productivity increases have nonetheless been uneven across different sectors.¹⁶ (In most economies in the region, productivity growth has been driven heavily by industry and a few high-end service sectors, with agriculture significantly lagging behind.)

Unbalanced growth of this sort has led to rising income inequality and heightened social tensions. On the other hand, much evidence suggests that more balanced productivity growth, which better respects workers' rights, can instead promote a more inclusive, sustainable growth model.

Why, then, is productivity so important? It can lead, among others, to higher real wages, better working conditions and greater investment, crucially, in human capital. Yet ensuring this positive link requires strong labour market institutions, ideally underpinned by

¹³ ILO: *Building a sustainable future with decent work in Asia and the Pacific*, op. cit., p. 94.

¹⁴ Estimates based on ILO: Trends econometric models (September 2011); and ILO: Economically Active Population Estimates and Projections Database (6th Edition, October 2011).

¹⁵ For the most recent year available, informal employment as a share of non-agricultural employment was 42.3 per cent in Thailand, 62.0 per cent in Timor-Leste, 62.1 per cent in Sri Lanka, 68.2 per cent in Viet Nam and 83.5 per cent in India. See: ILO: *Statistical update on employment in the informal economy* (Geneva, June 2011).

¹⁶ For example, see ILO: *Asia-Pacific labour market update* (Bangkok, April 2011); ILO: *Labour and social trends in ASEAN 2008: Driving competitiveness and prosperity with decent work* (Bangkok, 2008).

effective tripartite dialogue between workers' and employers' organizations, and government, along with effective collective bargaining.

The challenges of improving productivity and employment quality are perhaps no more acute than in agriculture, which remains the predominant source of employment for vast swathes of Asian workers. Increased investment in agriculture, agro-industries and rural enterprises is thus crucial in advancing decent work, reducing poverty and narrowing the growing rural-urban income divide across the region.

If countries are to better foster productive employment growth, sound macro-development strategies must be combined with structural reform — all with the explicit goal of job creation in mind.

e) Creating jobs for young people today while preparing for tomorrow's ageing workforce

Today, youth employment is one of the most pressing issues confronting the region. Unemployment among young women and men in the region is, on average, more than three times higher than among adults. Youth unemployment, for example, is notably high in Hong Kong, Indonesia, New Zealand, the Philippines and Sri Lanka.¹⁷ Creating sufficient decent work for young women and men is, after all, critical to sustaining growth and strengthening both social cohesion and political stability.

The root causes of youth employment vary. In some cases, particularly in South Asia, they are tied to low enrolment in education and the persistent use of child labour. Elsewhere in the region, unemployment among graduates is the most glaring employment challenge. And even where young people have jobs, the quality of employment is often far too low.

Aside from pre-emptive policies to keep children out of work and in school, addressing the youth employment challenge also requires smart education and skills policies which recognize the needs of business. Various measures have been proposed to smooth the school-to-work transition for young people: better labour market information, job search assistance and opportunities for on-the-job training, to name a few.¹⁸ Policies which support a robust macroeconomic environment conducive to sustainable economic growth, coupled with productive investment in strategic sectors with high employment potential, are also essential.

Looking ahead to the coming decade, rapid growth in the youth labour force (the so-called "youth bulge") is expected to put tremendous pressure on some low and middle-income countries which will thus need to create jobs for a large number of new labour market entrants. Given the right mix of investment, industrial, education and training policies, among others, countries can maximize this transition and reap a sustained "demographic dividend" in the process.

In East Asia, ironically, as well as some Southeast Asian middle-income countries, the main concern is not one of youth but, rather, of age. Such nations face the much dreaded risk of getting old before they get rich. As such, these countries would do well to: (i) strengthen social protection to support their greying populations, (ii) move away from labour-intensive

¹⁷ ILO: *Asia-Pacific labour market update* (Bangkok, December 2011, forthcoming).

¹⁸ ILO: *Labour and social trends in ASEAN in 2007: Integration, challenges and opportunities* (Bangkok, 2007), p. 30.

industries to more knowledge-based ones and (iii) address labour shortages by expanding female labour force participation and lifelong learning programs. Also, attention should be given to addressing labour shortages through appropriate migration policies.

f) Unlocking the potential of SMEs

The move to more balanced and sustainable development will require harnessing the full potential of technology, innovation and, critically, entrepreneurship.¹⁹ With better access to finance and skilled labour, stronger linkages with large firms, micro, small and medium-sized enterprises (MSMEs and SMEs) in the private sector could be the engine of growth and job creation, capitalizing on growing domestic demand and deepening regional integration to boot.

Across Asia and the Pacific, MSMEs for their part greatly outnumber large enterprises in both quantity and the share of the labour force they employ. At the same time, the majority of MSMEs in developing Asia operate in the informal economy, with their needs often overlooked by policymakers and regulators. For example, they often lack access to mainstream finance (banks, capital markets, etc.), training opportunities and other types of state support. Unsurprisingly, their productivity considerably lags that of large enterprises. Prioritizing MSMEs in policymaking and helping them move from survival to sustainability is thus essential to increasing the productivity of the overall economy – and bringing more of the large underground economy into the light of day.

In a similar vein, close attention must also be given to the regulatory environment – so crucial in determining whether businesses can adapt to change, innovate, grow and create productive employment.²⁰ The glaring lack of well-designed, transparent and accountable regulations, coupled with inadequate infrastructure and poor access to markets, too often inhibits business creation and job growth in the formal economy throughout the region.

As noted above, governments have a role to play in making the education system relevant and creating policies which nurture technology and new industries. In times of rapid change, a considerable challenge lies in identifying the kind of new skills demanded by employers. For this reason, connecting training and skills development with the requirements of business and the workplace can not be stressed enough.²¹

g) Green jobs and an equitable transition

Climate change is undoubtedly one of the most important long-term challenges facing humanity. And with more than half the world's population living in Asia and the Pacific, this region, more than most, has much at stake.

Consequently, green jobs issues are now moving up policy agendas across the region as governments look for integrated strategies to address the twin challenges of job creation and climate change. Innovative new policies that are both climate smart and support

¹⁹ ILO: *Building a sustainable future with decent work in Asia and the Pacific*, op. cit, pp. 26-28.

²⁰ G. Buckley et al.: *The promotion of sustainable enterprises* (Geneva, ILO, 2009), p. 3.

²¹ World Economic Forum: "Creating jobs in Asia: the entrepreneurship equation", Session summary, World Economic Forum on East Asia, 23 June (Jakarta, 2011).

employment growth must involve not only the utilization of high technology, but also the innovative application of traditional skills and processes.²²

Importantly, low income, labour-rich countries have a vital role to play. Such countries can, for instance, generate green jobs opportunities through private or public investment programmes. Recent examples include:

- Asia is expected to surpass North America and the European Union as the largest energy consumer. It will therefore be most affected by, and able to affect, trends in energy imports.²³
- Already millions of livelihoods in the region have been destroyed or are at risk from massive deforestation, loss of biodiversity, soil erosion, water contamination and poor waste management.
- Rising temperatures and extreme weather threatens millions of jobs in agriculture and could undermine future food security as well.
- Urban centres, where output and jobs are increasingly concentrated, are also under threat from extreme weather, rising sea levels and other hazards.

The future competitiveness of Asia and the well-being of its population will thus depend both on more efficient use of natural resources and winning the global race to a low-carbon future.²⁴ At the same time, this move to a low-carbon, sustainable society must be equitable. Why?

Economic and social restructuring will have a deep impact on workers, businesses and communities; the right mix of policies is therefore needed to share costs and spread benefits.²⁵ Many workers may require new skills to handle changing technologies and access to employment opportunities. SMEs will need assistance to adjust to environmental policies and regulations and position themselves to benefit from incentives. To this end, social dialogue is a critical component of the transition.²⁶

h) People-centred disaster recovery and risk management

Upgrading the capacity of countries to manage the economic and social consequences of natural disasters should be part of a comprehensive strategy. The devastating tsunami and nuclear disaster in Japan, earthquakes in China and New Zealand, and floods in Pakistan, the Philippines and Thailand are a stark reminder of the region's vulnerability.²⁷

²²ILO: *Green jobs programme for Asia and the Pacific*, Background BriefNo. 1, August (Bangkok, 2011).

²³ ADB: *Asia 2050: Realizing the Asian century* (Manila, 2011), p. 71.

²⁴ For more discussions, see The World Bank: *Securing the present, shaping the future, East Asia and the Pacific economic update* (Washington, D.C., 2011), pp. 57-63.

²⁵See: ILO: *Building a sustainable future with decent work in Asia and the Pacific*, op. cit, pp. 35-45.

²⁶ ILO: *Promoting decent work in a green economy*, ILO background note to UNEP: *Towards a green economy: Pathways to sustainable development and poverty eradication* (Geneva, ILO, 2011), p. 5.

²⁷ It is important to note that the region is also prone to "man-made disasters" such as the war in Afghanistan and political instability and conflict in countries like Pakistan and Myanmar, which have caused the displacement of millions who live in poverty and without much protection.

These disasters have taught us that effective responses require close public-private partnerships and coordination, robust infrastructure, careful planning, targeted social protection measures, livelihood-centered recovery and employment-focused reconstruction. Social partners have an indispensable role to play in enhancing preparedness, recovery and reconstruction. Decent work can help societies rebuild faster and better.

i) Strengthening regional integration and cooperation

Stronger regional cooperation creates a tremendous opportunity for the region to show leadership on fairer, more inclusive, sustainable globalization and to promote decent work and social justice.

The main driver of integration among the countries of Asia-Pacific is trade in goods and services. Open markets can contribute to growth and better employment outcomes if there are complementary actions at the national and regional levels to facilitate adjustment and ensure that the benefits of trade are widely shared. Trade, labour market and social protection measures must all interact closely to ensure that deepening trade integration has significant, positive effects on both growth and employment.²⁸

In this regard, it is equally important to recall the importance of internationally recognized labour standards in creating a level playing field in an open trading system: "...the violation of fundamental principles and rights at work cannot be invoked or otherwise used as a legitimate comparative advantage and that labour standards should not be used for protectionist trade purposes."²⁹

In addition, countries have become increasingly connected through international migration – migration driven by demographic trends, income disparities, human security issues and climate change.³⁰ Regional cooperation offers an opportunity to advance protection to migrants, to recognize their substantial economic and social contributions, to channel remittances more effectively and to strengthen the governance of labour migration. This last element, it should be added, would benefit from the strict application of the ILO's conventions on migrant workers, together with its "Multilateral Framework on Labour Migration".

Regional cooperation is also needed to maintain financial stability, given the impact of macroeconomic volatility on poverty and vulnerable workers. Renewed consideration should be given to regional dialogue, management of exchange rates, capital control measures and the establishment of a regional monetary fund, among other initiatives.³¹

Regional cooperation can also accelerate the transition to low-carbon economic activities and the creation of green jobs. Also, the region could serve as a shining global model by forging a regional solution to the dual challenges of long-term food and energy security.

²⁸ OECD, ILO, World Bank and WTO: *Seizing the benefits of trade for employment and growth*, Report prepared for submission to the G20 Summit Seoul, 11-12 November 2010.

²⁹ ILO: *Declaration on Social Justice and Fair Globalization*, adopted by the International Labour Conference at its 97th Session, 10 June (Geneva, 2008), p. 14.

³⁰ More than 25 million Asians work outside their home countries. See: ILO: *Building a sustainable future with decent work in Asia and the Pacific*, op. cit., p. 127.

³¹ ADB: *Institutions for regional integration: Towards an Asian regional community* (Manila, 2010).

II. Promoting Productive Capacities

A new multi-layered strategy for sustainable development should pay special attention to building productive capacity. This has been recognized by the United Nations as a top priority for least developed countries in order to fully benefit from globalization, increase resilience, sustain growth and poverty eradication, achieve structural transformation, and generate full and productive employment and decent work for all.³² ESCAP has argued that if countries are to boost their productive capacity, they must do more than simply produce more of the same; instead, they will need to produce and trade new and more sophisticated products and services.³³

ESCAP's productive capacity index,³⁴ based on measures of country's export diversification and competition, shows that (except for the region's developed countries and emerging developing economies), the majority of the countries in the Asia-Pacific region have levels of productive capacities strikingly below the world average.

Asian success stories like China, India and others increased their productive capacity in the past quarter-century by narrowing the gap with wealthier nations. Meanwhile, Asian nations with below-average productive capacity have, however, fallen further behind. This strongly suggests that the policies pursued by such countries were seriously flawed.³⁵

*Strategy for increasing productive capacities*³⁶

Economies build their productive capacities through a path-dependent diversification process that expands their production bases by including products that are increasingly more complex, thus facilitating even further diversification in the future. One strategy for countries to build their productive capacities is to let them be generated or acquired as part of strategic diversification led jointly by the State and private sectors. Importantly, throughout this process, the potential for employment creation and the ecological sustainability of the production process should be given weight.

One practical way to look for new products is, of course, by emulating the production pattern of countries with higher productive capacities. Ideally, the model country should not be too far ahead, so that emulating it does not entail too great a leap. Trade, for that matter, helps in discovering new possibilities. Products imported from countries with similar levels of productive capacity show the frontier of possibilities available for the use of the capacities that domestic firms already have. This then increases the chances for new combinations of productive capacity, replacing certain imports and, even, creating new products altogether. Such strategic diversification calls out for the selective promotion of certain economic activities over others through the use of industrial policy.

³² United Nations, 2011. *Programme of Action for the Least Developed Countries for the Decade 2011-2020*. A/CONF.219/3

³³ ESCAP, 2011a. *Economic and Social Survey 2011: Sustaining Dynamism and Inclusive Development: Connectivity in the Region and Productive Capacity in Least Developed Countries*. Sales No. E.11.II.F.2.

³⁴ Ibid.

³⁵ Clovis Freire, 2011. *Productive Capacities in Asia and the Pacific*. MPDD Working Paper Series, (WP/11/17).

³⁶ Based on ESCAP, 2011b. *Asia-Pacific Least Developed Countries in the next decade: Strategy and policy agenda for building productive capacities*. MPDD Policy Briefs No.8, May 2011.

As in any entrepreneurial venture, some of these new activities will fail. Ideally, clear market-based benchmarks for success should be set. One clear, practical benchmark of success is progress in foreign markets (a measure first used by East Asian countries during their industrialization process in the 20th Century). In the case of import-substitution, though, the State clearly needs a “sunset plan” for the gradual removal of protection. An important element of the selection process is choosing the time frame for the assessment of performance. The greater the jump in complexity from existing to new products, the longer it will take the private sector and the State to acquire the necessary capabilities.

New production needs to be promoted and replicated by attracting sufficient capital. The aim here is not to scale up particular firms but to facilitate the replication of successful business models by many other firms. Amplification will also depend on sufficient demand, which may constitute a challenge if the country is too small or too poor. One option for small developing economies is for them to pool their demand by providing preferential access to other small economies. (Economies in the South usually import many goods from the North that are available, under competitive conditions, in other developing economies.)

The strategy described above should be put into perpetual motion for developing countries to catch up with the frontier countries. Throughout this process, it is essential to strengthen national institutions and good governance in order to provide a stable environment for the evolution of the economy, the curbing of “crony capitalism” and the promotion of development goals.

Implementing the strategy: National effort and international partnership

Stable, Investment-Friendly Macroeconomic Policy Framework

Countries need to maintain strong macroeconomic fundamentals to increase productive investments, which are critical for strong and sustained economic growth leading to expanding employment opportunities. Countries need to utilize the full scope of appropriate countercyclical policies to maintain economic and financial stability in the face of domestic and external shocks, too.

Industrial Policy & Infrastructure Development

Active public intervention is required to create infrastructure, promote entrepreneurship, support export market development and other promotional measures covered under industrial policy. Infant industry protection should be provided to domestic industry in the early stages of development to provide fledgling productive capacity space to grow. Here public investment could play a proactive role in infrastructure development, acting as a catalyst for public-private partnerships by creating a virtuous cycle of investment and inclusive growth.

Domestic Resource Mobilization

A diversified, well-regulated and inclusive financial system is needed to promote savings and channel them to productive investments. The domestic supply of long-term capital also needs to be increased by developing domestic capital markets, venture capital funds, long-term lending institutions and industrial development banks.

Technological upgrading

Technological upgrading should be supported via national *and* international institutions and programmes. It is time to consider setting up a “technology bank” for least developed countries, which could promote the transfer of key technologies, including pro-poor, green, agricultural and renewable energy-related technologies. In addition, it is vital to take specific measures to support creative, inventive and innovative activities — like the involvement of universities and research institutions — across all economic sectors; emphasizing the advantages of commercializing of research output would also help.

Financing for development: FDI and ODA

FDI can expand production structure into areas characterized by higher value-added production. FDI policies should focus on stimulating productive investment, building technological capacities, developing infrastructure and strengthening linkages within and across sectors and between different enterprises. Outward FDI from developing countries is enhancing options in terms of sources of FDI. They now account for over a third of FDI flows received by LDCs. Bilateral and multilateral partners can provide technical, financial and other forms of assistance and support national efforts to create a stable and predictable investment climate. In addition, efforts need to be made to continue to improve the quality of ODA and increase its development impact by building on the fundamental principles agreed in the 2005 “Paris Declaration on Aid Effectiveness” and the 2008 “Accra Agenda for Action”.

Market Access

Least developed countries need to be provided with: (i) enhanced and predictable market access, (ii) support for establishing cost and quality competitive export supply capacity, and (iii) help building necessary trade-related infrastructure. (More transparent and simplified rules of origin and more comprehensive product coverage could improve the use and value of Generalized System of Preferences (GSP).) In addition, developed countries and developing countries in a position to do so, should implement fully the duty-free, quota-free market access as agreed in the Hong Kong Ministerial Declaration.

South-South, triangular and regional cooperation

With the rise of emerging countries in the region as the growth poles of the world economy, South-South and regional cooperation have become viable strategies for development. An increasing number of countries including China, India, Russia, Thailand, Malaysia, and Singapore have smartly developed programmes aimed at assisting other developing countries. Triangular cooperation, in which a traditional partner supports South-South cooperation projects, also has significant potential. Such initiatives should be further promoted and extended.

III. Achieving MDGs in Asia and the Pacific region³⁷

With four years left to the agreed target date of 2015, success is, happily, within reach on several key Millennium Development Goal targets. In the Asia-Pacific region, one of the greatest successes has been lifting countless millions out of poverty; for that matter, the

³⁷ Based on the forthcoming ESCAP/ADB/UNDP Regional MDG Report, 2011/2012.

region as a whole has already surpassed the MDG goal of halving the proportion of people living in extreme poverty. Since 1990, Asia and the Pacific reduced the proportion of people living on less than \$1.25 per day from 50 to 22 per cent – or from 1.57 billion to 871 million people, as of 2010³⁸.

The region has also achieved the MDG targets on a number of other goals, too.

Asia-Pacific is likely to achieve the goal of universal primary education by 2015, with 94 per cent of children in the region enrolled in primary education. Even in South Asia, which lags behind, the enrolment rate hit 90 per cent in 2006. Higher up the education ladder, gender disparities have declined in secondary and tertiary education, as well as at the primary level. The region as a whole has also met the HIV/AIDS and tuberculosis targets. On various environment related indicators, it has increased the proportion of protected forest area, while also reducing the consumption of ozone-depleting substances. And at the household level, it has more than halved the proportion of people without access to safe drinking water.

On the other hand, the region is still lagging in some major areas, such as completion of primary school, access to basic sanitation, or reduction of CO₂ emissions. Over 1.8 billion people in the region are still without basic sanitation, a number that has fallen only marginally since 1990. Progress has also been slow to stop children dying before their fifth birthday, or extend reproductive and maternal health care services and prevent mothers dying from causes related to childbirth (4 million children still die each year before age five).. And with the exception of a handful of countries, progress in under-5 mortality and infant mortality has been slow or even in reverse.

There are also significant differences between sub-regions.

Of the 23 MDG indicators, South-East Asia has already achieved ten and is on track for another four. The North and Central-Asian countries as a group have already achieved 11 of these indicators. South Asia, starting from a low base on many indicators, has made good progress on nine of them but is progressing only slowly on others. The Pacific Island countries as a group have been successful in indicators related to gender parity in tertiary education, HIV prevalence, TB incidence, protected areas, CO₂ emissions and the consumption of ozone-depleting substances, while lagging on others.

In addition, persistent – and increasing – inequalities are emerging within countries: chiefly between rich and poor, and increasingly between rural and urban populations.

Finally, despite the region's extraordinary poverty-reduction efforts in recent decades, Asia-Pacific still is home to some 870 million people living in absolute poverty (below \$1.25 a day), equal to around 70 per cent of the world total.

IV. The Way Forward

It is critical that the Asia and Pacific region continues to sustain growth and progress in achieving the MDGs by bridging gaps to increasing productive capacity and aggregate

³⁸Ibid.

demand, while simultaneously addressing issues of equity and inclusiveness. Given the many signs of a slowing global economic recovery and continued volatility in financial markets, the “Decent Work Agenda” and its inter-related, mutually reinforcing objectives, are more important than ever. How, then, can we better...

(i) *Coordinate macroeconomic, employment and social protection policies?*

Creating greater coherence at the national level between macroeconomic, employment and social protection policies is essential in shaping effective strategies for decent work based on productive investment, job-rich growth and adequately resourced social protection. The key elements for promoting coordinated macroeconomic and social protection policies should include:

- Making full employment a main macroeconomic goal alongside sound fiscal and monetary policies.
- Facilitating access to credit and investment for SMEs and micro-enterprises by improving their financial inclusion.
- Establishing budgetary priorities by identifying the employment and social effects of different government spending and tax policies as part of the normal parliamentary process.
- Building and strengthening a social protection floor for the most vulnerable people, in line with national circumstances.
- Ensuring the participation of the social partners in the design and implementation of policies.

(ii) *Create productive employment, sustainable enterprises and skills development?*

Creating a sustainable future with decent work requires renewed attention to the needs of MSMEs. Improved productivity and better working conditions are important both for the competitiveness of enterprises and the promotion of decent work. Opportunities should also be created to boost entrepreneurship, rural employment and green jobs. In addition, education and skills are essential for enhanced productivity and human and social development. Therefore, priorities in these areas might include:

- Promoting an enabling environment for sustainable enterprises, especially SMEs (including cooperatives), in particular by reducing administrative and regulatory burdens and making the tax system more favourable to real investment.
- Promoting entrepreneurship, especially among young people.
- Equipping the workforce with the skills required for strong, balanced and sustainable growth (including through the involvement of workers and employers in the development of training curriculums, and through the strengthening of public employment services).
- Improving working conditions (including occupational safety and health) particularly in the informal economy and in SMEs, by involving the relevant social partners in dialogue.

- Boosting rural and agricultural development, by, for example, improving labour productivity, promoting green growth, green jobs and introducing innovative social protection to workers in these sectors.

(iii) *Encourage rights at work and social dialogue?*

Respect for fundamental principles and rights at work is a cornerstone for building the institutional capacity necessary to promote efficient growth. Eliminating decent work deficits requires that the voice of the “real economy” — represented by governments and workers’ and employers’ organizations — be fully heard for balanced policymaking.

More equitable growth, underpinned by both domestic consumption and exports, will require measures that improve the alignment of wages and productivity increases. Achieving this demands social partners play a greater role in wage determination. In turn, this implies strengthening labour market institutions, including ministries of labour and employment, and employers’ and workers’ organizations.

It is therefore important to improve labour market governance in the following areas:

- Intensify efforts to ratify and apply fundamental labour standards as well as ILO governance conventions.
- Improve wage-setting mechanisms, including collective bargaining and minimum wage fixing.
- Strengthen institutions and procedures for preventing and resolving disputes fairly and quickly. Support labour inspection as a crucial tool for reconciling the needs of workers’ safety and protection with the requirements of productivity and competitiveness.
- Improve labour laws to enable enterprises to create decent jobs and reduce job-related precariousness and informality. It is notable that labour law reform is an important policy issue in many countries, most notably in the Pacific region and China, which recently strengthened its labour contract regulations.
- Enhance the capacity of workers’ and employers’ organizations to represent and service their members and build effective mechanisms for social dialogue and collective bargaining at different levels. In particular, special attention should be given to equipping constituents with appropriate knowledge and tools to assess the potential employment impact of macroeconomic policies and anticipate the skills and labour markets changes that will come with the transition to low-carbon economies.

At the regional level, promoting policy coherence between economic and social goals is also needed. Priorities might include:

- Promoting policy coherence among regional organizations across a range of areas, especially those linking people’s aspirations for social justice with the management of regional markets. This is critical for advancing the social dimension of regional integration.
- Strengthening regional cooperation on climate change and mitigating environmental degradation. This could involve sharing lessons learned, including the promotion of green jobs and an equitable transition.

- Improving cooperation to respond effectively to natural disasters, including livelihood-centred and employment-focused rebuilding and recovery measures.
- Providing evidence of the economic contribution made by migrant workers to the national economies of both origin and destination countries, and supporting improvements in the governance of labour migration, including better dialogue and protection of migrants' rights.
- Strengthening the voice of workers and employers in the relevant work of regional organizations.

Strong regional institutions can provide a platform to consolidate and enhance the region's global influence in promoting economic prosperity and social cohesion. This would include influencing international financial and trading systems and the climate management framework. Existing institutions such as ASEAN+3, SAARC and PIF might also be strengthened to serve as regional forums for policy dialogue on employment and social issues.

(iv) Promote productive capacity and achieving the MDGs?

In the outcome document of the 2010 Millennium Summit, countries unanimously called for increased efforts, at all levels, to enhance policy coherence for development, while affirming that achievement of the Millennium Development Goals requires mutually supportive and integrated policies across a wide range of economic, social and environmental issues for sustainable development. Such an approach requires that all countries formulate and implement policies consistent with the objectives of sustained, inclusive and equitable economic growth, poverty eradication and sustainable development. Here, the lessons learned and successful policies of the past could be replicated and scaled up to accelerate progress towards achieving all the MDGs.

While each country has to chart its own development course, there are, of course, a number of common concerns and priorities in the region which offer opportunities to strengthen the environment for achieving the MDGs.

- *Strengthen growth by stimulating domestic demand and intra-regional trade?* Economic growth is important, though not sufficient, to achieving the MDGs. In an era when demands from traditional markets are weakening, countries in the region would do well to rebalance their growth, basing it more on domestic consumption and greater levels of intra-regional trade.
- *Make economic growth more inclusive and sustainable?* As emphasized in the outcome document of the Millennium Summit, economic growth needs to be inclusive – derived more from economic activities such as agriculture that benefit the poor, and especially women. The fruits of growth also need to be better allocated so as to contribute to achieving the MDG targets. At the same time the economic growth should be consistent with sustainable development, and economic policies will need to set their sights on decoupling economic development from environmental pressures.
- *Strengthen social protection?* Countries will be better placed to achieve the MDGs if they offer a minimum social floor that addresses extreme poverty and hunger and income insecurity, as it will minimize the risks and vulnerability from economic crises and natural calamities. It will also act as a 'circuit breaker' for vicious inter-generational

cycles of poverty and hunger as well as reducing widening disparities between the rich and poor.

- *Reduce persistent gender gaps?* Greater investments in women and girls have significant multiplier effects across all the MDGs. Backed by collection and analysis of gender-specific data, legal reform is needed to ensure that women have greater control and ownership over assets, have equitable access to employment and public services, and, lastly, are fully represented in public and political life.
- *Ensure financial inclusion?* Most of the region's poor have little access to financial services. Governments can play their part by improving infrastructure and the regulatory environment while encouraging better service provision by NGOs, community-based groups and the private sector.
- *Support least developed and structurally disadvantaged countries?* While most of the resources for achieving the MDGs must come from within countries, continued assistance would be required for many of the countries with special needs to accelerate progress towards the MDGs.
- *Exploit the potential of regional economic integration?* Regional economic integration can make the region more resilient to further crises and bolster the capacity of the poorest countries to achieve the MDGs. Agreements on economic integration, for example, could enable smaller countries in particular to extend their markets and reap efficiency gains. Opportunities for fruitful cooperation exist in finance and other areas, too.

V. Further Questions for Participants

(i) Promoting Inclusive, Sustainable, Equitable Economic Growth

- *What does inclusive, sustainable and equitable economic growth mean for the Asia Pacific region?*
- *Which issues need to be prioritized on the policy agenda to ensure that progress on productive capacity in the region translates into sustained growth and the creation of decent jobs?*
- *What are the specific constraints and challenges that countries in the region face in narrowing gaps in inclusiveness and social cohesion?*
- *Which efforts or good practices in the region have successfully addressed these challenges and can serve to promote sustained, inclusive and equitable growth and progress on the MDGs?*
- *Which United Nations means of action should be called upon or strengthened to help make the goals of full and productive employment and decent work for all a central objective of relevant national and international policies and as part of efforts to achieve the Millennium Development Goals?*³⁹

³⁹ [\[1\]](#) 2005 United Nations World Summit Outcome, A/RES/60/1, paragraph 47.

(ii) *Coordinating macroeconomic, employment and social protection policies...*

- What experiences and lessons can participants share on implementing a macroeconomic framework of price stability, fiscal sustainability and full and productive employment?
- What experiences and lessons can participants share on financing and building a social protection floor?

(iii) *Creating productive employment, sustainable enterprises and skills development...*

- What policies and actions can promote a more conducive environment that enables small firms to generate more and better jobs?
- What experiences and lessons learned can countries share on efforts to promote skills development, sustainable enterprises, and green jobs?

(iv) *Promoting rights at work and social dialogue...*

- What are the experiences and lessons learned in minimum wage policies and strengthening the link between productivity and wages, particularly through social dialogue?
- What are good practices in the region for preventing and resolving labour disputes quickly and fairly and strengthening industrial relations systems?

(v) *Promoting productive capacity...*

- What policies and actions have you pursued in the diversification of economic activities so that all sections of your society can benefit from such diversification?
- What have been the successful approaches in providing the long-term financing required for the creation of new productive capacities?
- What policies and actions can you take in upgrading technology in order to promote productive capacity development?

(vi) *Achieving MDGs in Asia and the Pacific region...*

- Given that there are only four years left, what specific strategies and policies would you need to adopt in accelerating progress towards achieving the MDGs by 2015?
- What measures have been taken by your government in integrating the MDGs in your national development strategies? What are the gaps, if any? How do you intend to close them?
- How do you view the Post-2015 MDG development agenda? What role can regional cooperation play in shaping and implementing that agenda?