

Discussion comments on “Labour markets in China, India and other newly integrated economies: are they different?”

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Introduction

The topics chosen for this conference are all very close to Palle’s professional interest, and Palle would have been keen to contribute to the debate. Moreover, they reflect in a succinct way recent changes in the world economy, something which Palle was always quick to grasp and analyse. This is particularly true for the issues discussed by Professor Tendulkar. A decade ago, few would have been interested in analysing how labour markets in emerging markets might be different from those in the developed world. Today, given the rapid increase in the relative importance of these markets, this is a highly topical question.

The paper presented by Professor Tendulkar provides a lot of interesting information and stimulates the reader to raise a number of questions. The performance of the labour markets will heavily influence how these economies will be able to perform in future and benefit from a globalised world. I limit myself to some issues related to labour supply and the functioning of the markets.

1. Labour supply

Demographic trends. There seems to be a clear difference between China and India, the former facing in the medium-term the same kind of ageing problems as much of the industrialised world.¹ This is not surprising, given the one-child policy in China, and the differences with India seem to be escalating in the next couple of decades. However, over the longer term, the dependency ratio also starts to increase in India, producing a situation not dissimilar to that in the developed world.

Education. Future growth will be dependent not only on the quantity of labour but, to an increasing extent, on the quality of labour. In this respect, there are great differences between the two countries and also in relation to the industrialised countries. While China has been able to raise the level of education and fares well in comparison to the rest of the region, India faces important challenges. Moreover, the differences have not narrowed in the last 40 years, and it seems that the business sector has had to start providing not only training but also basic education. Without a sufficiently good basic education, the attractiveness of the markets will suffer and structural changes might become increasingly difficult to cope with.

Migration. It is interesting to note that Professor Tendulkar does not discuss this issue, which has potentially important implications for future growth prospects. This is an area where the labour markets clearly differ from those of the industrialised countries. Emerging economies always run the risk of losing labour, as the population might be looking for faster income

¹ See eg Jaumotte and Spatafora (2007).

increases than even a rapidly growing economy can provide.² In both China and India, a high number of well-educated students have studied or are studying abroad. This improves future prospects if they return after completing their studies and gaining some work experience. But it will be a challenge to draw them back and, as we know, a large number of well-educated people of Indian origin are already working abroad.

2. Functioning of the labour market

It is interesting to learn that, according to the OECD (2007), India has one of the most restrictive Employment Protection Legislations (EPL) among the countries that OECD has studied. In particular, the restrictions on collective dismissals are very severe, and the differences with China are large. This has resulted in a situation where employment growth is concentrated in unorganised employment and in companies with less than 100 employees. Clearly, this will not help India's participation in the international division of labour.

China seems to be tightening regulations, and new legislation is in place as of 1 January 2008, which aims at increasing labour rights and the role of the All-China Federation of Trade Unions (ACTFU). According to the International Labour Organization (ILO), labour costs will rise by between 3 and 7% a result of the new legislation.

All in all, while there are differences with industrialised countries, there are also striking similarities. This is particularly true of the ageing problem over the longer term. But it is also interesting to note that regulations are severe in India and are being tightened in China. However, the major challenge is education. Given the international mobility of well-educated labour in particular, countries run a clear risk of increasing upward pressures on labour costs. In these circumstances, employment can be safeguarded only if skills develop at the same pace.

References

Jaumotte, F and N Spatafora (2007): "Asia rising: a sectoral perspective", IMF Working Paper, No 07/130.

OECD (2007): *Economic Surveys: India*. Paris: OECD.

² Recent examples are to be found in the Baltic countries which, despite rapid economic growth and full employment, have experienced a large outflow of well-educated people.