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PROBLEMS AND ISSUES OF DEVELOPMENT IN ASIA\*

- GENERAL REVIEW -

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### - GENERAL REVIEW -

This is a review of the progress achieved so far in development and it focuses attention on certain major problems and issues of development policy which confront the developing countries in Asia. The approach has been selective and the emphasis herein is on trends and aspects of development which condition and guide national and international action to which efforts should be directed. The discussion is focused on certain priority areas of concern to Asian nations in the context of international and regional cooperation and is intended to provide a background to assist the Conference in understanding and orienting current and future actions in relevant fields in Asia.

#### ECONOMIC GROWTH

Economic growth, i.e. an increase in output and income, is probably the most basic objective and the most significant single indicator of progress in the development of the Asian countries. The attainment of other common development objectives - such as stepping up the rate of capital formation, achieving a satisfactory balance on external account, selfsufficiency in food supplies, the maintenance of price stability, rising living standards, the reduction of income disparities between social groups or different parts of a country - is closely related to and is often conditioned upon achieving an adequate rate of growth.

The average growth rate for developing countries of Asia was about 4 percent over the 10 years period to 1965. This rate is below the target rate of 5 percent per annum set for the Development Decade. It is also below that attained in Latin America and the Middle East during 1960-65. However, the performance of individual countries varied greatly. During 1960-65 growth rates were high in the Republic of China, the Republic of Korea and Thailand, and fairly high in Malaysia and Pakistan; gains were in excess of 5 percent per annum and showed substantial improvement over performance in the previous five years. In Cambodia and Iran the growth rate during 1960-65 declined to about 5 percent per annum from previous higher levels. In the Philippines the rate of growth remained at the level of about 4.5 percent. The record of four countries - Burma, Ceylon, India and Indonesia during 1960-65 were substantially below the target of 5 percent and, with the exception of Indonesia where the growth rate was also very low previously, fell sharply from the levels achieved in 1955-60. More up-to-date information does not alter the picture much except that in India, thanks to the bumper harvest in the 1967-68 crop year following two years of drought, the annual average growth rate for the period 1960-67 is estimated to be near the 4 percent attained during the earlier period.

The following table shows the average annual growth rate of gross domestic product at constant prices for the years 1955-60 and 1960-65:

Country	Average Annual Growth Rate (percent)			
	Aggregate Product		Product per Head	
	1955-60	1960-65	1955-60	1960-65
Developing Countries:				
Burma	5.7	2.3	3.7	0.2
Cambodia	8.2	5.0	5.9	2.7
Ceylon	3.1	2.2	0.5	-0.3
China (Taiwan)	6.5	8.8	2.9	5.4
India	3.9	2.6	1.8	0.2
Indonesia	1.6	2.0	-0.5	-0.3
Iran	6.4	4.9	4.4	1.8
South Korea	4.6	7.0	1.7	4.1
West Malaysia	4.1	6.2	0.9	3.1
Pakistan	3.4	5.4	1.3	3.1
Philippines	4.5	4.6	1.4	1.2
Thailand	5.0	7.0	2.0	3.9
Developed Countries:				
Australia	3.9	5.0	1.6	2.9
Japan	9.7	9.5	8.7	8.4
New Zealand	3.9	4.7	1.7	2.5
USSR	9.0	6.5	7.0	4.9

The significance of the rates shown in the above table as an indicator of economic performance must, of course, be evaluated in relation to other factors, such as the degree of development already attained, the strategy of development that has been chosen (e.g. priority accorded to investment in heavy industry, resulting in low initial yields due to the long lead time but carrying expectation of higher returns in the longer run), the influence of natural calamities on yearly averages, fluctuations in the prices and in the volume of export commodities, and, above all, the varying effects of defence requirements and of involvement in war.

#### POPULATION PROBLEMS

The rate of growth of national product per head of population is lower in every case than that of the aggregate product, but the ranking of the various countries remains much the same. In the four countries with the lowest rate of growth in the aggregate national product, the rate of growth per head in 1960-65 was negligible or even negative. It is not surprising, in the circumstances, that rapid population growth is now a cause of serious concern in the developing countries of Asia, and that population policies are rapidly becoming an accepted part of development programs. The relationships between population growth and economic and social development are complex. The rate of population increase and the resource endowment, particularly the ratio of arable land to man, varies between the countries; the view may even be sustained with some justification that in a few countries with low population densities such as Burma and Laos, population growth may in the long run stimulate development. Nevertheless a consensus is emerging that rapid population growth constitutes a drag on development in most developing Asian countries in a number of ways, at least in the short run.

In contrast with the situation in advanced countries, the supply of factors of production in developing economies is relatively inelastic so that population increase contributes little to raising the total income and tends instead to diminish the income per head. Next, a hard choice has to be faced in the allocation of resources between meeting the immediate consumption needs of the growing population and the investment requirements in the developing Asian countries. It has been further suggested that population growth depresses income per head more than proportionately, the chief reason being the lower saving and investment levels that result from heavier dependency burdens. These in turn are due to the unfavourable population structure in developing countries; it is estimated, for

instance, that in virtually all developing Asian countries, at least 40% of the population is in the non-productive age group under 15, while only in a very few instances does the population under 20 years of age account for less than 50% of the total.

Sustained population growth is the most important single factor contributing directly to sharp rises in labour supply over a period of time. The following table shows the annual rates of growth of population and the labour force underlying the estimates and projections over various decades:

<u>Major Area &amp; Region</u>	<u>1950-60</u>	<u>1960-70</u>	<u>1970-80</u>	<u>1980-2000</u>
<u>% Annual Rate of Population Growth</u>				
Asia	1.8	2.0	2.0	1.7
East Asia	1.5	1.4	1.3	1.1
Mainland Region	1.5	1.3	1.3	1.0
Japan	1.1	0.9	0.9	0.5
Other East Asia	2.0	2.9	2.7	2.0
South Asia	2.2	2.5	2.5	2.1
Middle Asia	2.1	2.4	2.5	1.9
South East Asia	2.4	2.6	2.6	2.6
South West Asia	2.7	2.7	2.9	2.5
Australia & New Zealand	2.3	1.9	1.6	1.5
USSR	1.7	1.4	1.3	1.2
<u>% Annual Rate of Labour Force Growth</u>				
Asia	1.3	1.6	1.9	1.9
East Asia	1.1	1.4	1.6	1.3
Mainland Region	1.0	1.3	1.6	1.3
Japan	2.0	1.6	0.7	0.3
Other East Asia	1.4	2.8	3.1	2.6
South Asia	1.5	1.9	2.2	2.4
Middle South Asia	1.3	1.7	2.0	2.3
South East Asia	1.9	2.1	2.5	2.4
South West Asia	1.5	2.7	2.8	2.8
Australia & New Zealand	2.1	2.0	1.5	1.4
USSR	2.0	1.1	1.4	0.9

Source: World & regional estimates & projections of labour force.

Another major effect of the rapid growth in the labour force is to slow down the modernization of the employment structure in spite of the economic development. The following table shows the distribution of the labour force in recent years, in a number of countries of the region by major economic sectors:

<u>Country</u>	<u>Year</u>	<u>Percentage of Labour Force in</u>		
		<u>Agriculture</u>	<u>Industry</u>	<u>Services</u>
Developing Countries:				
Cambodia	1962	82	4	14
Ceylon	1963	56	14	30
China (Taiwan)	1956	56	17	27
Hongkong	1966	5	47	48
India	1961	74	11	15
Indonesia	1961	73	8	19
Iran	1956	58	21	21
South Korea	1965	59	13	28
Malaysia (Malaya)	1957	59	13	28
Nepal	1961	95	2	3
Pakistan	1961	75	10	15
Philippines	1965	57	15	28
Singapore	1957	9	21	70
Thailand	1960	84	4	12
Developed Countries:				
Australia	1961	11	40	49
Japan	1965	25	33	42
New Zealand	1961	14	37	49
USSR	1959	45	28	27

Note: The scope of each of the major sectors is as follows:  
 Agriculture: agriculture, forestry, fishing and hunting.  
 Industry: mining & quarrying, manufacturing, construction & utilities.  
 Service: commerce, transport, storage & communications and public & private services.

It will be seen from the foregoing table that agriculture still provides the predominant share of employment in all developing countries in Asia except Hongkong and Singapore. In no instance - excepting Hongkong - does industry provide employment for more than 21% of the labour force. In fact the shift to industrial employment in Asia has been considerably less pronounced than the growth in industrial production.

The entire group of wage and salary earners still constitutes less than 20% of the gainfully employed population in Asian countries as a whole, and amounts to more than 50% only in Ceylon and West Malaysia (where plantation agriculture is a prominent feature of the economy) and in Singapore. It may be of interest to note in this connection the estimates in a recent study that wage employment, mostly non-agricultural and in medium and large establishments, was expanding in India and the Philippines at the rate of about 4 percent per annum as against a rate of about 2-3 percent per annum in the traditional sector.

The high rate of population growth in most developing countries stems from a rapid decline in mortality coupled with near-static fertility, the influence of international migration being negligible. The mortality rate i.e. the number of deaths per annum per 1,000 people generally varies from 15 to 30 as against ten or less in the advanced countries.

The current levels of birth rates, i.e. the number of live births per annum per 1,000 people, are also generally high but variable - for instance, 45-50 in Iran, Pakistan and Thailand, 40 in India and about 30 in Ceylon, the Republic of China, Hongkong and Singapore. The birth rates have generally remained stable, especially in larger countries, but have dropped sharply in a few cases: between 1958 and 1966 they fell from 40 to 32 in the Republic of China, from 37 to 25 in Hongkong and from 42 to 30 in Singapore. A decline in the birth rate is also reported from the Republic of Korea but cannot be verified owing to the inadequacy of vital statistics. The decline in the birth rate of Ceylon, where the cultural context is different from that of the countries mentioned, from about 38 during 1950-54 to 33 in 1966, may be particularly significant since it may foreshadow a declining trend in other areas as well.



Active population policies centered on family planning programmes are being increasingly adopted and vigorously pursued by Asian governments. While such programmes ultimately aim at moderating fertility to accelerate national development, it is usually emphasized that their primary purpose is to promote the health and well-being and to improve the lives of the families concerned whose willing co-operation is vital to the success of the programmes. Three features are essential to all family planning programmes: public information and education; adequate supply of equipment and materials; and the necessary services which require trained staff and proper organization.

The governments of developing countries in Asia which have sponsored active family planning programmes include those of Ceylon, India, the Republic of Korea, Malaysia, Pakistan and Singapore. In a number of other countries, including the Republic of China, Hongkong, the Philippines and Thailand, the government allows or supports programmes by voluntary agencies, but the degree of commitment to action programmes varies greatly from country to country depending upon the weight of public opinion and authority, secular and religious, which are opposed to the practice of family planning. Because of a multitude of economic and social imponderables the prediction of future fertility remains hazardous.

#### AGRICULTURAL DEVELOPMENT

The emphasis now laid on agricultural development is explained by the growing recognition of agriculture's role as a pace-setter for the economy as a whole in developing countries. The level of agricultural income is a major determinant of the demand for manufactured products and services. Agriculture provides food for workers in the other sectors and raw materials for industry; hence, a short fall in agricultural output strains the production system. When income per head is low, a rise in real income is largely translated into terms of increased demands for food. Any deficit in domestic agricultural supplies needs to be made good by imports, which requires a diversion of scarce foreign exchange from alternative productive uses. A complementary relationship thus exists between general economic development, industrialization and agricultural development. For instance, the poor agricultural output during 1965-66 contributed to a decline in the rate of industrial expansion in the developing countries of Asia (the 1966 rate was only half that of the previous year), and also brought about a substantial slackening in the pace of growth generally. There was a tendency, which is fast disappearing, to take the agricultural component of the development effort for granted. The widening gap between the food needs of a rapidly growing population and the food supplies from a barely expanding domestic agriculture - which can be supplemented less and less from the depleting stocks of some of the advanced countries - has served to dramatize the importance of agricultural development.

During the decade ending in the agricultural crop year 1964-65, agricultural production as a whole appears to have slightly exceeded or just kept pace with population growth in most parts of Asia, although its expansion tended to slacken in several countries, including India and Indonesia, during the latter half of the decade. In fact it was largely the failure of agriculture that accounted for the poor economic performance in the region generally and in particular countries. The backwardness of the agricultural sector thus appears as a major impediment to Asian economic growth.

Setbacks in recent years are reflected in the performance of agriculture's largest component, food grains production, which could not catch up with population growth for developing Asia as a whole during the five years ending 1964-65 a period which included years of both good and bad weather conditions. This grim picture is, however, not without its bright spots. For example, during the decade ending in 1965, agricultural output increased by an average of more than 4% per annum in the Republic of China and in Malaysia; in the second half of the period both the Republic of Korea and Thailand succeeded in raising agricultural production by about 5% per annum. However, it is worth noting that whereas Asia as a whole exported 2 million tons of food grains from 1934 to 1938 it imported 16 million in 1960 and expected to import 30 million in 1966.

Asian countries are seeking with a new sense of urgency to improve agricultural output by greater investment in agriculture and in sectors which support agriculture, e.g. the domestic fertilizer industry, irrigation and flood control projects, and by improving the supply of improved seeds, chemical fertilizers, pesticides and agricultural equipment. Parallel action aimed at organizational improvements in regard to research, extension services, credit facilities, etc., has been initiated or intensified to maximize the returns from contemplated investments. A major task which has not yet been tackled in breadth is the development of agricultural technology related to conditions of developing countries, especially as regards climate and factor endowment. Examples which can be cited are the management of arid soils and the breeding of high-yield crop varieties more resistant to disease and drought and responsive to fertilizers. Producers should also have direct economic incentives, such as the assurance of stable and reasonably remunerative prices, to take risks, to introduce innovations to increase output. A number of Asian countries have now adopted policies of guaranteed minimum farm prices, although difficulties are often experienced in making them fully effective at the farm level because of weakness in the marketing structure and in local administration.

The crux of the problem is to increase yield per acre, since the extension of acreage is generally not feasible, and is costly and capital intensive even where reserves of land for possible conversion to agricultural use do exist. The potential for raising productivity per acre seems enormous, as shown by the gap between the performance of the advanced or experimental farms and the average farm. What makes the task of agricultural development in Asia so complex, however, is that a large number of mostly small farmers have to be encouraged and materially assisted to achieve highest output. This requires integrated action in several fields.

In the developing countries of Asia there has been a tendency to consider rural development primarily in physical terms, as an economic problem, while due attention has not been paid to the human factor and to the social problems involved. Many rural development schemes have consequently come to grief not only for lack of material investment but also owing to the indifference of the people concerned, who did not stand to gain enough to make the development effort worth their while, and to relative neglect of institutional factors such as agrarian reform.

Agrarian reforms, largely directed towards tenancy systems, are needed not only in the interest of social justice but also as the basis for agricultural improvement. The degree of success so far achieved in this regard in the Asian countries has, however, been uneven. Many countries of the region - notably Burma, India, Indonesia, Iran, Pakistan, the Philippines and the Republic of Vietnam have made statutory provisions for land reform, but progress in implementation has generally been slow for various reasons. Land reform has in some cases not been accompanied by its essential concomitants, namely a reorganization of credit and marketing arrangements and the provision of advisory services to help the beneficiaries take advantage of the opportunities offered to them.

#### INDUSTRIAL DEVELOPMENT

Leaders of developing countries in Asia have long considered industrialization to be the key to accelerated development and to the attainment of the larger goal of modernizing the nation. Substantial progress in this field has been recorded in most cases over the last 15 years. Countries such as Afghanistan, Nepal and Thailand which previously had little modern industry have made a beginning with light industries; in other countries, such as the Republic of China, Hongkong, the Republic of Korea and Pakistan, where the industrial base was initially narrow, industry has expanded at an annual rate well in excess of 10 percent for a number of years and the industrial structure has been strengthened and diversified. India, which had a much longer industrial tradition, has succeeded in laying the foundation of a complex of heavy industries.

These achievements should, however, be seen in their proper perspective. Although developing Asia accounts for one-third of the world population its share in the world's industrial output remains below 2%. Industrial production per head is also the lowest in the world. A little under half of the industrial output of the developing countries of Asia is concentrated in one of those countries, namely India. The impact of industrialization on the structure of economy and employment remains limited. Industry still accounts in general for only 15 to 25 percent of the national product and 10 to 20 percent of the labour force, and less than 5 percent of the labour force in countries such as Cambodia, Nepal and Thailand where industrial development is still in its infancy. Besides, much of this industrial employment is concentrated in traditional crafts and other types of pre-modern activities. It was estimated ten years ago that roughly 75% of all manufacturing employment in the developing countries of Asia were concentrated in small establishments employing less than 20 workers.

Three major, and to some extent related, objectives may be discerned in the pursuit of industrialization by developing Asian countries. The first is import substitution under which goods previously imported, mostly for sale to a final consumer, are manufactured locally. This approach has been extended to cover producer and intermediate goods such as machinery, metals and chemicals. In several cases, especially in the larger countries, an import substitution policy has led to the establishment of new industries in anticipation of a demand which is expected to result from development and which would otherwise have to be met by imports. The second objective is to increase the country's own share in the processing of local foodstuffs and raw materials such as petroleum, jute and rubber, partly for the expanding domestic market but principally for export. A third objective, mainly on the island of Hongkong and Singapore but to some extent also in certain other countries, is the deliberate promotion of export industries based wholly or partly on imported raw materials. These three lines of approach, whether adopted singly or in combination, usually aim at the early achievement of self-sustaining growth.

A number of problems have been encountered in the process of industrial development. Nascent industries principally geared to domestic demand usually operate in a seller's market, inadequate attention being paid to costs, quality and other consumer requirements. This situation arises because there is usually little competition, either among domestic producers, since any industrial licensing system has to take account of the overall shortage of capital, or from imports because of the need to save foreign exchange and to protect the infant industries, at least initially. However, industries which produce wholly or partly for export markets have to be competitive, and their export performance tends to be handicapped by the practices and patterns of high-cost production for the domestic market. A second problem is that in many cases inadequate provision for the necessary complementary investments, especially to meet such basic needs as transport and the supply of energy and essential raw materials, has acted as a brake on industrial growth. This is part of the general problem of imbalances in the allocation of resources among different sectors of the economy, of which manpower imbalance provides another example. Another major handicap, particularly in the case of the smaller countries and in the context of import substitution, is the small size of the national market, which makes it difficult to achieve economies of scale. Cooperative arrangements within group of countries can help to overcome this handicap as well as to reap other economic advantages such as the mobilization of larger total resources and better utilization of local raw materials.

These factors appear to converge in the serious and widespread problem of under-utilization of productive equipment in industry in developing Asian countries. While the most common immediate constraint to a fuller use of productive capacity appears to be the shortage of foreign exchange, largely owing to an initial under-estimation of the needs for imported raw materials, components and spare parts, other factors referred to above, such as the small size of the market, high costs or bottlenecks in transport or the supply of energy, can also be highly relevant. Recent industrial development policies in several countries, including India and Pakistan, accord high priority to narrowing the gap between the installed capacity and the actual output of existing productive units in preference to allocating resources for setting



up new units. Aid programmes are also increasingly contributing to fuller capacity utilization by enlarging the scope of "programme" or "maintenance" assistance.

Under-utilization of productive capacity is a waste not only of capital but also of employment opportunities. Although industry cannot alone provide all the new jobs required by the growing labour force of the developing countries of Asia, it is important that each sector of the economy should make available its full share of potential employment. The resulting increased output and income in the highly productive industrial sector would also create jobs elsewhere in the economy. The fuller utilization of existing industrial capacity could be materially advanced by more continuous operations, more intensive staffing and better maintenance of machines, and an increase in shift work. The productivity of workers could be increased by improving their conditions of work, for example by attention to occupational safety and health, ergonomics, their living conditions, as regards, for example, nutrition and housing. The development of employers' and workers' organizations and the establishment of good relations between them and with the public authorities at all levels, as well as the improvement of methods of fixing wage rates, bargaining collectively and settling disputes, should provide a favourable social atmosphere for the development of industry.

In addition to the above-mentioned improvements in the utilization of existing capacity, it is possible, by planning with an eye to the most effective use of both manpower and material resources, to ensure that industrial development makes the maximum use of the former, which is relatively low-cost in developing countries, and the minimum use of the latter, that tends to be scarce and consequently expensive. This is essentially a matter of carefully considering the use of labor-intensive rather than capital-intensive techniques of production, and resorting to the former in appropriate cases, having regard to all the economic and social factors involved.

The employment of a larger number of workers, however, is not sufficient in itself to ensure adequate utilization of existing or planned capacity. The development of adequate skills at all levels, from government officials and members of management to ordinary workers, is one of the greatest needs of the developing countries. Training has to be provided for manpower planners, to study, forecast and plan employment and training for others; for labor administrators, to implement government decisions concerning labor; for business managers, to run industry with an understanding of modern methods; for managers of cooperative societies, which may be expected to facilitate the transition from small-scale handicraft work to industrial production on a larger scale; for vocational training instructors; for supervisors at all levels; and for workers with varying degrees of skill.

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