

## **Is Surging Asia Sustainable Amidst Fracturing GVCs and Soaring Inequality?**

Rene E. Ofreneo<sup>1</sup>  
University of the Philippines

### **Abstract**

The 21st century is widely reported as Asia's century. And yet, this historic transformation is taking place amidst so much uncertainty as to the trajectory and role of Asia in the evolving global market. The most worrisome for Asia are the disruptions in the global value chains (GVCs), the international production chains that have enabled Asia to flood the world with endless industrial and consumer products. The GVCs are being disrupted by the Fourth Industrial Revolution (FIR), the trade conflicts among the major trading nations, and the global climate crisis which is pushing the world to re-think industrial processes. And in 2020, the COVID-19 pandemic came on top of the foregoing disruptive phenomena, creating a perfect economic storm for the region and more disruptions for the GVC system.

Indeed, how sustainable is Asia's economic rise if the GVCs that have transformed the region as the world's industrial

---

<sup>1</sup> Dr. Rene E. Ofreneo is a Professor Emeritus of the University of the Philippines (UP). He was appointed Dean of the UP School of Labor and Industrial Relations three times. He served as DOLE Undersecretary for Labor Relations in 1997-98, at the height of the Asian financial crisis. Dr. Ofreneo is one of the leading scholars on labor relations and labor market studies in the Philippines and in the Asia-Pacific. He sits in the editorial board of several international journals and has several international publications. Dr. Ofreneo was a Member of the Oversight Action Group on the Recommendations of the Gangayco Commission and on the provisions of the 1995 Migrant Workers and Overseas Filipinos Act. He is a columnist of the Philippine Business Mirror and can be reached at [reneofreneo@gmail.com](mailto:reneofreneo@gmail.com).

workshop are fracturing? Additionally, if the pattern of its GVC-driven economic growth is highly uneven, does it deliver the jobs, welfare and social protection needed by all?

The call of popular movements, trade unions and civil society organizations for a re-balancing of globalization and Asian economic integration must be heeded. Instead of focusing singularly on growth statistics under the imagined Asia's century, Asian policy makers should address the more important task of how to put people at the center of national, regional and global development.

**Keywords:** Asia's century, Factory Asia, GVCs, FIR, SDGs.

### **Staggering rise of Asia**

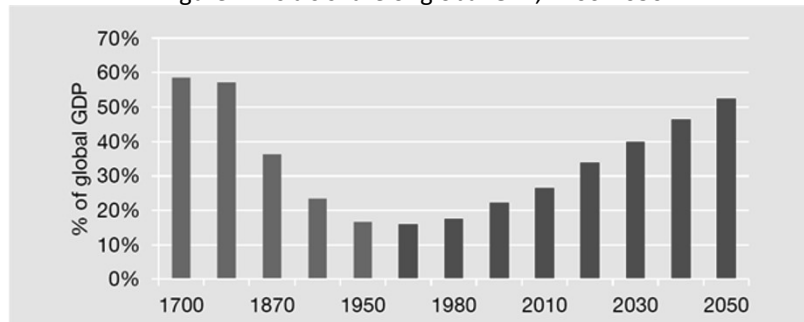
At the turn of the millennium, Asia was widely predicted to eclipse Europe and North America in size and economic strength. Led by emergent China, Asia has become the world's factory, able to churn out a galaxy of household and office items such as furniture, appliances, utensils, toys, office supplies and so on that have been flooding the world market.

The different Asian countries have also firmed up their positions in the global value chains (GVCs) of the multinationals specializing in the production of cars/vehicles, semiconductors/electronics and garments (West, 2018). The iPhone, conceived in California, has high-tech components from Japan, South Korea and Taiwan, and is assembled in China by Foxconn and Pegatron, both of which have facilities in other Asian countries such as Indonesia. Garments, designed in American and European capitals, are cut and sewn in Bangladesh, Cambodia, India, Sri Lanka and Vietnam. India and the Philippines are in the industrial GVC periphery; however, they have managed to become the leading destinations for offshored global services (customer/contact, business processing and programming) from 2000 onward.

In 2011, the Asian Development Bank (ADB) formally declared that the 21st century indeed shall be Asia's century, and that this will be a reality by 2040 or thereabouts (ADB, 2011). In a decade or so, Asia is

poised to account for more than half of the world's GDP, a gigantic leap considering that Asia's share was less than 20 percent of the global GDP in the 1950s. To ADB, this means that Asia, which accounts for 60 percent of the world's population, will reassume its economic dominance in the world in three decades, a position it held three centuries ago. ADB illustrated this cross-century pendulum in Figure 1.

Figure 1. Asia's share of global GDP, 1700-2050



Source: Graph reproduced from Asia 2050 (ADB, 2011, p. 3)

Today, the ADB forecast appears conservative. Tonby, et al. (2019), in McKinsey Global Institute's recent publication *Asia's Future Is Now*, declared that Asia's century has arrived much earlier and observed that home-grown Asian multinationals are now dominating the financial boards of the world. In 1997, Asia accounted for 36 percent of the 5,000 largest global firms; in 2017, the Asian share was up to 43 percent. China accounts for the huge increase, but the McKinsey research team noted that corporations from the Philippines, Vietnam, Kazakhstan and Bangladesh are now on the list. Also, the big Asian firms have diversified into technology, finance, logistics and infrastructure. They are now transforming the region's economy into a services-led one, with manufacturing now accounting for a smaller share of the economy.

The most dramatic development is on the digital side of the global economy. Wrote McKinsey's researchers

Asia is online and booming. Today it already accounts for half (2.2 billion) of the world's internet users; China and India alone account for one-third...The region's enormous pools of digital consumers support a flourishing and innovative

technology sector. China, Japan, South Korea, and Singapore are among the most digitally advanced nations in the world. China has joined these ranks with startling speed. In e-commerce, for example, China accounted for less than one percent of the value of worldwide transactions only about a decade ago; that share is now more than 40 percent. Penetration of mobile payments among China's Internet users grew from just 25 percent in 2013 to 68 percent in 2016. Three of China's Internet giants—Baidu, Alibaba, and Tencent—are building a rich digital ecosystem now growing beyond them" (Tonby et al., 2019, p. 12).

The *Financial Times* of London more or less agrees with the analysis of McKinsey Global Institute. Romei and Reed (2019), in the *Times'* March 26, 2019 issue noted that Asia's output in the 1950s was less than 20 per cent of the world's total; in 2000, Asia's share reached about 1/3 of the world's; and today, to around 40 percent. Asia's rise was due to the fast growth of a number of Asian countries. After the United States, the three biggest economies today are Asian: China, India and Japan.

And not to be forgotten, the original Asian tigers – Singapore, South Korea, Taiwan and Hong Kong (now integrated with China) – continue to roar in the world market, all joining the ranks of advanced economies. Their growth performance has been replicated by Malaysia and Thailand. And in recent years, the world was witness to the phenomenal economic surge of other Asian countries – Indonesia (poised to become the world's 7th biggest), Philippines (GDP now bigger than that of Netherlands), Vietnam (which has overtaken 17 countries in just a decade or so), Bangladesh (now rated by ADB as the fastest-growing Asian country and which has overtaken 13 countries), and Myanmar (whose ranking has increased by over 20 times). The rest of Asia, especially Cambodia and Nepal, have also been posting high growth rates.

### **Emergence of Factory Asia**

Asia's rise is due largely to its transformation as the industrial workshop of the world in the last six decades. It has been supplying

most of the manufactured goods needed by the world, particularly by the North American and European markets.

The history of Factory Asia, spearheaded by the dynamic Asian exporting countries, is well-known and well-documented. Japan was the original export dynamo. It became a “miracle economy” in the 1960s when it succeeded in rebuilding its war-ravaged economy by re-strengthening its industrial capacity, upgrading human resources and exporting industrial goods, including cars and technology-based products, to the world market.

Japan’s export model was subsequently replicated by the four Asian tigers – Hong Kong, Singapore, South Korea and Taiwan. These “newly-industrialized countries” or NICs became the “miracle economies” of the 1990s and the models of economic development for the World Bank (World Bank, 1993).

And then at the turn of the millennium, China, with a population of over 1.3 billion, stunned the world with its economic performance: three decades of annual growth of 10 percent since 1978, the year it opened up to the world market (West, 2019). This miracle growth was clearly a replication of what Japan and the four Asian tigers did in the earlier decades. The big difference: the export offensive was undertaken by a country with an area and population several times bigger than those of the five Asian economies taken together. Another difference: a strong and determined state, under the leadership of the Communist Party of China, was leading the global export offensive.

From 2000 onward, Factory Asia as a term has become part of the global trade vocabulary. The main drivers of Factory Asia were China, Japan and South Korea (Byung-il & Rhee, 2014).

The three have also become the main drivers of the GVCs for different industrial products such as electronics, automotive parts and various consumer and industrial goods. China was the recipient of investments from the more technologically-developed Japan and South Korea in a production arrangement where China was assigned the task of doing lower-level assembly work using intermediary inputs provided by Japan and South Korea.

The GVC reality is, of course, more complicated than the above triangular GVC system involving the three countries. As outlined by West (2019) in the book *Asian Century*, almost all Asian countries are now “hooked” to the GVC system. In fact, some Asian countries such as Indonesia, Malaysia, Philippines and Thailand have been involved in the GVC system on electronics, auto parts, garments and other products since the 1970s. The GVC system then, spearheaded by the Japanese, American and European industrial producers, was better known as a system of international industrial outsourcing based on a “new international division of labor” (NIDL) development framework, where developing countries, as providers of cheap labor, are assigned to do the labor-intensive and low-tech assembly work, while the developed countries concentrate on skills- and technology-intensive work processes (Froebel, Heinrichs & Kreye, 1978).

Today, participants in the GVC system include almost all of the South and Southeast Asian countries, with Vietnam, Cambodia, India, Bangladesh, Sri Lanka and Nepal increasingly becoming major assemblers-exporters. On the other hand, China, with its new-found industrial and technological strength, has become a major source of outsourcing jobs, as it has succeeded—like Japan, South Korea, Singapore and Taiwan in developing its own GVC system for various products and cornering an increasingly larger part of the world market for industrial and consumer products.

**But is Asia’s economic rise sustainable?  
Is Factory Asia sustainable?**

Can Asia maintain a high level of growth and keep its leading role in the global economy? Is Factory Asia sustainable? Is Asia’s century sustainable?

There are no easy answers to the above questions. In fact, Asia and the world are going through uncertain and turbulent times.

Part of the uncertainty and turbulence is ignited by the disruptions shaking the foundations and structures of the GVCs. There are four major disruptive threats: first, the FIR or “industry 4.0” for short (Schwab, 2016); second, the US-China and related trade wars; third,

the climate emergency; and fourth, the COVID-19 pandemic. Below is an outline of how the architecture of Asia's economy is changing due to these disruptions.

### **1. *Disruptions due to FIR***

The FIR disruptions are inevitable. Industry 4.0 is enabling corporations to do more integrated production at home. In other words, the “fragmentation” or “atomization” of work in global industries, which allows the big corporations to outsource the labor-intensive phases of production to developing countries such as assembly work, is increasingly becoming irrelevant or non-profitable. In fact, the whole GVC system can be uprooted and “re-shored:” for example, Adidas is now manufacturing shoes in its plants in Germany and the United States with the aid of new technology (Green, 2018).

However, the re-organization—e.g., shortening the chain, re-shoring some outsourced activities, re-designing processes, etc.—of the different GVCs due to the impact of FIR is obviously not happening in one fell swoop. It varies from GVC to GVC and depends on the attitude towards innovation and supply chain overhaul by the principal drivers of the GVCs, meaning the American, European, Japanese, Chinese, Korean and other GVC investors. Some changes can be incremental, e.g., reduction of the number of chains or production assemblies (as in the case of electronics and auto parts which are distributed by multinationals for assembly in different countries). On the other hand, some changes can be sweeping, e.g., uprooting the whole GVC system and bringing it back to the home country of the multinational. Of course, the adoption of supply chain changes depends on a number of factors such as the cost of innovation, availability of appropriate technologies, market impact of technological adjustments and so on. But the general direction of change is undoubtedly towards the shortening of the supply and production chain under each GVC.

According to the United Nations Conference on Trade and Development (UNCTAD) (2020), the key technology trends shaping or re-shaping international production are: robotics, AI-enabled automation, enhanced supply chain digitalization and 3D printing (additive manufacturing). The availability of cheaper industrial robots and AI-enabled automation can offset the competitive advantage of low-

cost manufacturing. Digitalization and additive or 3D manufacturing make a “rebundling” of the different stages or chains of manufacturing possible; they also enable manufacturers to do “mass customization” or production based on specific demands of customers (e.g., color, design, size, etc. of rubber shoes).

Impact of the FIR on jobs? It is clear that the jobs market under each GVC is going to be affected. The International Labour Organization (ILO) produced two studies on the labor displacement impact of robotization and automation on a number of ASEAN countries. Chang and Huynh (2016), and Chang, Rynhart and Huynh (2016) found that 56 percent of employment in five ASEAN countries (Cambodia, Indonesia, Philippines, Thailand and Vietnam) are vulnerable to displacement. GVC-based industries such as electronics, auto parts, footwear and garments are among the most vulnerable.

The gradual erosion of jobs in Factory Asia is also beginning to be felt in the offshored call center/BPO industries located in India and the Philippines. Chat-bots and other interactive digital communication systems are making the services of call center agents or online customer relations personnel redundant.

## ***2. Disruptions due to trade rivalries***

Trade rivalries and trade protectionism among countries, especially between the major economies, are disruptive of trade and cooperative production relations. The most publicized among these is the so-called “US-China trade war.”

Former US President Donald Trump openly questioned why China has been racking up huge trade surpluses at the expense of the United States. Trump angrily raised the following complaints: US-China trade balance one-sidedly in favor of China (for example in 2018, US imported US\$539.5 billion of goods from China and exported US\$ 120.3 billion in return, resulting in a US trade deficit of US\$419.2 for one year alone); China robbing the US of “hundreds of billions” a year due to Chinese piracy of US ideas amounting to “intellectual property theft”; China killing 100,000 Americans a year by exporting the dangerous fentanyl drug; and China manipulating its currency in order to gain competitive advantage in trade (Rushe, 2019).



The response of China to Trump's accusations was equally angry. The Chinese government came up with documents detailing the behaviour of China as a trustworthy member of the international community when it comes to trade relations. In a white paper issued in September 2018, China's Information Office of the State Council argued as follows: the slowing US economy is due to bad economics, specifically US having a low savings rate and yet consuming so much; trade imbalances between the two countries are due to natural "industrial competitive strengths", with China running surpluses on labor-intensive products and accumulating deficits on agricultural products; part of the US trade deficits from China are "trade surpluses" of Japan and other Asian economies which have been using China as manufacturing and export platform; and it is the US, which dominates the monetary system of the world, that is exploiting global markets by "printing a hundred-dollar bill" that is "no more than a few cents" while other countries "have to provide real goods and services in exchange for that note" (Information Office of the State Council, 2018).

Trump backed up his verbal tirades against China by ordering the imposition of a series of tariff increases on Chinese goods and asking American investors with manufacturing projects in China to withdraw. As a result of the US-China trade war, a number of American, Japanese and other investors have downsized or even phased out some manufacturing facilities in China. At the same time, there are reports of disruptions in US businesses that are dependent on input imports from China.

To date, there are no signs that the US-China trade war will be settled soon. It continues to rattle and shake the GVC system of Asia, especially those with inputs or outputs connected to GVC links in China. The countries most affected are Japan, South Korea, Taiwan, Malaysia, Philippines, Singapore, Thailand and Vietnam (Miura, 2019). The trade war happens to be between the US, the world's biggest economy, and China, the world's biggest industrial producer and second biggest economy.

The unsettled US-China trade war has triggered efforts by virtually all Asian countries to undertake strategic adjustments or positioning on participation in the GVCs and on their trade and economic policies in the region. One outcome is the wave of "relocations away from

China” so as to avoid US sanctions over products imported from China (Zhou & Tan, 2020). However, one irony: the “transferees” include Chinese-owned enterprises. The choice relocation sites are countries in Southeast Asia, with Vietnam as the prime relocation destination (Shoulberg, 2019).

But the trade wars are not limited to US and China. Japan has a well-publicized “trade conflict” with South Korea, which came out in the open in 2019. Some observers call this a Japan-South Korea “trade war.” Japan restricted the export of high-tech materials to South Korea. In response, South Korea scrapped a military-intelligence sharing agreement with Japan. Further, the two countries dropped each other from the list of “trusted” trade partners (Huang, 2019).

Another manifestation of trade rivalry is the withdrawal of India, after several years of participating in the negotiation, from the formation of the Regional Comprehensive Economic Partnership (RCEP). Signed in 2020, the RCEP covers the East Asian countries (China, Japan and South Korea), countries “down under” (Australia and New Zealand) and the 10 Association of Southeast Asian or ASEAN countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam). On its withdrawal from RCEP, India openly expressed its fears that its domestic market would be flooded with Chinese products. India added that China is “protectionist” and that India’s trade deficit with China was due to the latter’s “unfair, restricted market access,” and not to “comparative advantage playing out” (Yuda & Sharma, 2019).

### ***3. Climate change risks***

Asia’s economy, especially the GVCs, are vulnerable to the risks associated with climate change and environmental degradation. The ADB (2017), in a report on climate change, pointed out that disasters triggered by weather disturbances have a disruptive impact on supply chain networks involving different countries hosting the GVCs. This means flooding in one host country can affect the “just-in time” standard in the delivery of inputs/outputs from one GVC chain producer to another as well as the quality and quantity of inputs/outputs under an “interdependent” system of production.

The vulnerability of the supply chain system to climate change risks is only one of the threats posed by global warming to Asia. The said ADB report (2017) argued that climate change can “significantly undo previous achievements of economic development and improvements of living standards” in Asia (p. x). Accordingly, a rise in global temperature beyond the 1.5 degree Celsius agreed upon by UN Member States in the Paris Agreement of 2015 means a “deterioration of the Asian ‘water towers,’ prolonged heat waves, coastal sea-level rise and changes in rainfall patterns” (p. 115), all of which can “disrupt ecosystem services and lead to severe effects on livelihoods which in turn would affect human health, migration dynamics and the potential for conflicts” (p. 115).

Some GVCs are also re-configuring or re-arranging production in response to global warming. Easily, the most significant among these are the GVCs for the auto industry (Toyota, Mitsubishi, Ford, etc.), which have well-developed networks of production plants in Asia. As is well publicized, the shift to electric vehicles is now sweeping America and Europe, and is slowly gaining adherents among the rich Asian consumers. As UNCTAD (2020) puts it, the shift leads to a consolidation and restructuring of the auto GVCs as what has been happening in North America, Latin America and Europe. Such consolidation and restructuring are likely to happen in Asia within the decade with electric vehicles becoming more and more affordable due to advances in fuel technology.

Of course, national disasters due to climate change adversely affect whole economies, including the GVC production facilities they are hosting. Japan’s supply chain was seriously damaged in 2011 by two major disasters: the Great East Japan Earthquake and the severe floods in Thailand (Miura, 2020).

Asia is highly vulnerable to climate change risks and disasters. South Asia, Southeast Asia and East Asia are all at risk to rising sea levels, destructive typhoons, flooding and unbearable heat. According to the Global Climate Risk Index, six of the 10 countries in the world that are most affected by climate change, based on data from 1995 to 2014, are Asian: Myanmar (rank 2), the Philippines (4), Bangladesh (6), Viet Nam (7), Pakistan (8), and Thailand (9). In 2014, five of the 10 most affected were in Asia: Afghanistan (2), the Philippines (4), Pakistan (5), Nepal

(7), and India (10). Weather disturbances in these countries triggered landslides, heavy rains, typhoons, tropical storms, heavy monsoon rains, and floods that killed thousands of people, displaced families, and caused widespread damages to homes and agriculture. The irony is that Asia, led by its high-performing economies (China, Japan and South Korea), has become a major contributor to global warming with its greenhouse gases emission (Amponin & Evans, 2016).

The prognosis is bad. More devastating typhoons, heat waves, plant destruction and so on are likely. Glaciers are also melting in the Himalayas and in the northern areas of China, Mongolia and the Central Asian countries. All these shall affect jobs, businesses and whole communities. Communities in the Bay of Bengal, Mekong delta and in the coastal areas of China, Japan, South Korea and Southeast Asia are all vulnerable to a sea rise of one meter or higher.

#### ***4. COVID-19: Ushering in a “perfect storm” for the GVCs***

The rapid global spread of the corona virus No. 19 or COVID-19 in 2020 has seriously shaken and disrupted the GVCs not only in Asia but also throughout the world. Coming on top of the three disruptors – FIR, trade wars and climate change, COVID-19 has ushered in a “perfect storm” for the GVCs, roiling and disrupting the GVCs worldwide (UNCTAD, 2020). The trouble is that the COVID-19 pandemic is a storm that refuses to go away in many parts of Asia as of the time of this writing.

Governments around Asia have imposed and implemented debilitating lockdowns, some on a recurring basis, to prevent the spread of the virus at the community and national levels. In the process, factories have been shut down and the movement of goods and services has grounded to a halt in countries where harsh lockdowns have been declared. Two industries that are badly affected are transport (land, sea and air) and logistics, both of which play a vital role in keeping GVC operations humming with minimal interruptions. With COVID-19, interruptions and disruptions have become common. Social distancing at the community and national levels has been reinforced by global distancing as countries try to close national borders to prevent the entry of suspected carriers of the virus, especially those coming from countries with very low rates of vaccination.

In the assessment of UNCTAD (2020), COVID-19 tends to accelerate certain trends affecting the shape of GVCs such as the adoption of new technologies promoting automation and robotization, both of which lead to the reduction of GVC chains and re-shoring of some outsourced production such as electronics assembly and auto parts manufacture. Protectionist tendencies, which are at the heart of trade wars, are also reinforced. Transnationalization or internationalization of production can slide into nationalization or localization.

The GVC disruptions are happening at the Asian and global levels. The disruptions affect even China, which achieved early reduction in infections due to a militaristic national lockdown in the first quarter of 2020. Thus, in April 2020, Chinese auto makers had to adjust production because of the late or delayed arrival of parts imports from Japan, Europe and the United States (Miura, 2020). This clearly shows that successful GVC operations depend on the just-in-time delivery of imports and exports among the GVC participants located in different countries across the globe.

The flow of capital through foreign direct investments (FDIs) is also disrupted. UNCTAD (2020) sees a reduction of FDIs worldwide by a whopping 40 percent. Some outcomes from the FDI slowdowns include the cancellation of trade orders, postponement of planned GVC expansions, and revisions of GVC plans.

### **Economic, social and labor impact of GVC fracturing**

COVID-19 and the three disruptors (technology revolution, trade wars and climate emergency) are indeed a perfect storm subverting Factory Asia.

Does this mean the end of the GVC system? The answer is No. The GVC system will not disappear overnight, although a few will be uprooted or closed down due to re-shoring or business losses. What is clear is that the fracturing process is a continuing one and so is the re-configuration process for each GVC. Naturally, the level of participation of each Asian country in each GVC, industry by industry, is changing, also industry by industry. Of utmost importance to labor market analysts is what happens to the work force of a participating country.

*Job losses and job creation deficits*

On the jobs market, some have emerged winners in the fracturing GVC system, while many have become losers. One winner is Vietnam, which has become the favorite destination of GVC investors, including Chinese GVC participants who are trying to escape US tariff sanctions (Miura, 2020). Other Southeast Asian countries are reported to be winning new GVC investments and jobs too.

However, majority of the GVCs have been shedding jobs due to the lockdowns and “global distancing” among countries involved in the GVC system. Big job losses have been reported in the ready-to-wear garments industry, which is a big employer in South Asia (Bangladesh, India, Sri Lanka) and in some Southeast Asian countries (Cambodia, Laos and Myanmar). There are also massive job losses in the auto and electronics industries because of the disruptions caused by the COVID-19 lockdowns, technology changes and trade wars.

Also losing jobs are countries stuck in the lower end of the GVC system because low-value-adding assembly work (such as electronics or semiconductor assembly) can be automated. This was the case for the Philippines, which enjoyed robust exports of assembled electronics and semiconductor devices in the 1990s and earlier, exports of sewn garments in the 1980s. The reality is that countries engaged in low value-adding GVC chains and unable to climb to higher levels of GVC production are eventually abandoned by “footloose” multinational GVC investors who are continuously searching for countries offering cheaper labor sites and generous fiscal incentives.

Another reality: no country, not even Japan and China, can rely solely on GVCs in the creation of jobs for its entire population. The creation of jobs under the GVC system should only be part of a bigger program of job creation involving the development of domestic industries, modernization of the agricultural sector and strengthening of ancillary service industries, including the mobilization and capitalization of savings from overseas migrant workers. Countries which hitch development solely on the basis of their participation in the GVC system by simply opening up markets for FDIs under a program of economic liberalization and deregulation are bound to suffer huge

jobs and growth deficits, especially if these countries are at the low end of the GVC system.

Under the COVID-19 pandemic and the fracturing GVC system, unemployment in Asia has surged. The International Labour Organization Regional Office for Asia and the Pacific (2020), reported that 81 million workers in Asia lost their jobs (32 million for women and 49 million for men) in 2020. There was also a sharp reduction in the work hours of the employed, with the total hour losses estimated by ILO to be equivalent to 265 million full-time jobs for the second quarter of 2020 alone (based on a 48-hour work week).

### *Soaring inequality*

Related to the surge in GVC job displacement is the lack of quality jobs for the many, especially those outside the limited formal market and the puny GVC labor market. This job situation usually leads to a pattern of jobless growth and deepening inequality in the labor market. GVCs have created good jobs for the highly-skilled workers and professionals; however, majority of the blue-collar and “no-collar” workers in the GVC system end up as “precariat,” workers with no job security, limited bargaining power and uncertain future (Ofreneo, 2013).

The ADB, World Bank and other UN agencies have been raising alarms on the deepening economic and social inequality in the region even if these institutions have been celebrating the rise of rise of Asia in the global market. The big globalizers —China, India and the Southeast Asian countries—are cited as having high Gini coefficients or high levels of inequality in terms of income distribution. The problem is that these institutions usually write about worsening poverty and inequality; and yet, they hardly discuss the root causes of persistent mass unemployment, mass poverty and soaring inequality. In particular, they hardly discuss the following:

- Jobless growth due to limited job creation in GVC industries. No country in Asia, not even China, can claim full or near full employment due to the GVCs. After all, GVCs are not designed to create jobs for the entire labor force of a given

country; they are designed by outsourcing multinationals to distribute various aspects of work in different locations to take advantage of cheaper labor cost, fiscal incentives offered by host country and so on.

- The Race to the Bottom culture among employers. Casual or short-term hiring practices are common. Footloose capital in the garments and other low-technology labor-intensive industries fly in and out of production sites, usually export processing zones, to avoid unionism and exploit cheap and malleable labor.
- Low quality jobs in the large informal sector. South Asian countries have large pools of labor in the informal sector, as high as 80 to 90 percent of the total labor force; in non-industrialized Southeast Asia (minus Singapore and Brunei), informal sector employment is around two-thirds of the total employed.

In the light of the foregoing, more and more economic researchers are raising questions on the sustainability of the export-oriented GVC system when economic and social inequality is deepening within and among countries. How can growth be assured when so many are excluded, when societies are divided between the haves and the have-nots, and when governments have to spend so much of its resources on security and police matters to keep the peace?

A report by the World Bank (2018) also posed the question: can export-oriented manufacturing sustain growth with equity? The report in a way admitted that developing countries in East Asia and the Pacific cannot rely on this old World Bank policy prescription, that is, for countries to grow: open up, liberalize trade and embrace globalization. The Report pointed out the difficult challenges due to uncertainties in the GVCs and slowed expansion in trade and investment globally. Thus, in this report, the World Bank (2018) policy recommendations are largely non-trade: social protection for the vulnerable and more investments on human resources to promote upward mobility in society.



### ***Soaring inequality reflected in Asia's inability to meet all SDG targets***

Stories on the rapid growth being registered by Asia are mesmerizing since statistics keep growing upward. However, most of the growth benefits do not filter down or reach the majority of the working people of Asia. Positive qualitative transformation of their lives has been limited. This is best summed up in the region's performance in relation to the United Nation's development targets under the Sustainable Development Goals (SDGs).

The Economic and Social Commission for Asia and the Pacific ([ESCAP] 2019) said that Asia is on course to "to miss all" the 17 SDG targets set by the United Nations as the global indicators of growth and development and that the "region needs to fast-track progress or reverse negative trends regarding all Sustainable Development Goals to achieve the ambition of the 2030 Agenda" (p. 2). Asia is lagging in realizing some of the SDG targets and even failing in meeting the other targets.

The 17 SDGs are: a) zero hunger, b) no poverty, c) good health and well-being, d) quality education, e) gender equality, f) clean water and sanitation, g) affordable and clean energy, h) decent work and economic growth, i) industry, innovation and infrastructure, j) reduced inequality, k) sustainable cities and communities, l) responsible consumption and production, m) climate action, n) life below water, o) life on land, p) peace, justice and strong institutions, and q) partnership to achieve the foregoing goals.

Among the key observations of ESCAP on Asia's SDG performance are as follows:

- progress is below those posted in 2000 for clean water and sanitation (Goal 6), decent work and economic growth (Goal 8) and responsible consumption and production (Goal 12);
- no or little progress on zero hunger (Goal 2), industry, innovation and infrastructure (Goal 9), reducing inequalities (Goal 10), sustainable cities and communities (Goal 11), climate action (Goal 13), life below water (Goal 14), life on land (Goal 15) and peace, justice and strong institutions (Goal 16);

- progress is insufficient on no poverty (Goal 1), good health and well-being (Goal 3), quality education (Goal 4), gender equality (Goal 5), and affordable and clean energy(Goal 7);
- slow progress in strengthening partnerships (Goal 17);
- more than half of Asia-Pacific's total employment is in the informal sector;
- in a few countries, some 15-20 per cent of children from ages 5-17 are engaged in child labor;
- on average, 2,000 people die every day in traffic accidents in the region;
- 325 million people still live without electricity.

## **Conclusion**

### ***Rebalancing for People-Centered Development a Must***

On the whole, Asia's economy is unequal and unbalanced. To the ordinary people in Asia who worry about their day-to-day lives, the hype on Asia's century is a puzzle. GVCs, Factory Asia and Asia's 21st century – these are meaningless to the working people of Asia if there is no positive qualitative transformation of their lives.

Obviously, a re-balancing of economic globalization in Asia is in order. There is a need to overhaul an unequal and unbalanced economy and society under Factory Asia.

However, the task of re-balancing has become doubly difficult given the fracturing of the GVC system. The COVID-19 pandemic must be contained. The climate emergency due to global warming must be healed. The technology revolution must be transformed into an instrument for job creation and job enrichment, not job destruction and mass displacement of workers. Trade relations should be fair and beneficial to all. And soaring inequality must be checked through strong social and economic inclusion programs.

This re-balancing challenge is clearly not an easy task. It requires a review of the economic, social and labor policy regime that gave birth to Factory Asia given the foregoing realities outlined in this paper. In undertaking such a review, it will do well for Asian

governments to heed the call of the trade unions and civil society organizations to put people at the center of national, regional and global development visioning.

## References

- Amponin, J. A. & Evans, J.W. (2016). Assessing the intended nationally determined contributions of ADB developing members. *Sustainable Development Working Paper Series* (44) Asian Development Bank. <https://www.adb.org/sites/default/files/publication/189882/sdwp-044.pdf>
- Asian Development Bank. (2011). *Asia 2050: Realizing the Asian century*. <http://dx.doi.org/10.4135/9781446270349>
- Asian Development Bank. (2017). *A region at risk: The human dimensions of climate change in Asia and the Pacific*. <http://dx.doi.org/10.22617/TCS178839-2>
- Byung-il, C. & Rhee, C. (2014). *Future of Factory Asia*. Asian Development Bank; Korea Economic Research Institute. <https://www.adb.org/sites/default/files/publication/42477/future-factory-asia.pdf>
- Chang, J. & Huynh, P. (2016). *ASEAN in transformation: The future of jobs at risk of automation*, (Working Paper 9). International Labor Organization. [https://www.ilo.org/wcmsp5/groups/public/---ed\\_dialogue/---act\\_emp/documents/publication/wcms\\_579554.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---act_emp/documents/publication/wcms_579554.pdf)
- Chang, J., Rynhart, G. & Huynh, P. (2016). *ASEAN in transformation: How technology is changing jobs and enterprises*. (Working Paper 10). International Labor Organization. [https://www.ilo.org/wcmsp5/groups/public/---ed\\_dialogue/---act\\_emp/documents/publication/wcms\\_579553.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---act_emp/documents/publication/wcms_579553.pdf)
- United Nations Economic and Social Commission for Asia and the Pacific. (2019). *Asia and the Pacific SDG report for 2019*. [https://www.unescap.org/sites/default/files/publications/ESCAP\\_Asia\\_and\\_the\\_Pacific\\_SDG\\_Progress\\_Report\\_2019.pdf](https://www.unescap.org/sites/default/files/publications/ESCAP_Asia_and_the_Pacific_SDG_Progress_Report_2019.pdf)
- Frobel, F., Heinrichs, J., & Kreye, O. (1978). *New international division of labor*. Max Planck Institute.
- Green, D. (2018, April 26). Adidas just opened a futuristic new factory – and it will dramatically change how shoes are sold. *Business Insider*. [www.businessinsider.com/adidas-high-tech-speedfactory-begins-production-2018-4](http://www.businessinsider.com/adidas-high-tech-speedfactory-begins-production-2018-4)

- Huang, E. (2019, August 29). Japan-South Korea dispute is a sign that the world order is 'collapsing,' says trade expert. *CNBC*. <https://www.cnbc.com/2019/08/30/japan-south-korea-trade-war-a-sign-of-collapsing-world-order-expert.html>
- Information Office of the State Council (China). (2018). *On US-China trade war*. Information Office of the State Council.
- International Labour Organization. (2020). *World employment and social outlook: Trends 2020*. [https://www.ilo.org/sites/default/files/file\\_publicacion/wcms\\_734455\\_0.pdf](https://www.ilo.org/sites/default/files/file_publicacion/wcms_734455_0.pdf)
- Laderchi, C. R., Spatafora, N., Shetty, S., & Zaidi, S. (2018). *Riding the wave: An East Asian miracle for the 21st century*. World Bank Group. <https://doi.org/10.1596/978-1-4648-1145-6>
- Miura, Y. (2019). Impact of US-China trade friction—An overview based on value added trade statistics. *Pacific Business and Industries*, XIX, (72). Japan Research Institute. <https://www.jri.co.jp/MediaLibrary/file/english/periodical/rim/2019/74.pdf>
- Miura, Y. (2020). Modality of the post-coronavirus supply chain—Should we shift away from our dependence on China. *Pacific Business and Industries*, XX (78). Japan Research Institute. <https://www.jri.co.jp/MediaLibrary/file/english/periodical/rim/2020/78.pdf>
- Ofreneo, R. (2013). *Asia & the Pacific: Advancing decent work amidst deepening inequalities*. International Trade Union Confederation-Asia Pacific. [https://www.solair.upd.edu.ph/Advancing%20Decent%20Work%20Amidst%20Deepening%20Inequalities%20\(Ofreneo%202013\).pdf](https://www.solair.upd.edu.ph/Advancing%20Decent%20Work%20Amidst%20Deepening%20Inequalities%20(Ofreneo%202013).pdf)
- Rommei, V. & Reed, J. (2019, March 26). It's now official – the Asian century is set to begin. *Financial Times*. <https://www.ft.com/content/520cb6f6-2958-11e9-a5ab-ff8ef2b976c7>
- Rushe, D. (2019, August 23). Here are the reasons for Trump's economic war with China. *The Guardian*. <https://www.theguardian.com/us-news/2019/aug/23/trump-china-economic-war-why-reasons>
- Schwab, K. (2016, January 14). *The Fourth Industrial Revolution: What it means, how to respond*. World Economic Forum. [www.weforum.org/agenda/2016/01/the-fourth-industrial-revolution-what-it-means-and-how-to-respond](http://www.weforum.org/agenda/2016/01/the-fourth-industrial-revolution-what-it-means-and-how-to-respond)
- Shoulberg, W. (2019, October 16). Vietnam is becoming the big winner in the China trade wars. *Forbes*. <https://www.forbes.com/sites/warrenshoulberg/2019/10/16/us-finally-succeeds-in-vietnam-as-more-companies-move-sourcing-there/?sh=2cc1b4c34a4e>

- The World Bank. (1993). *East Asian economic miracle: Economic growth and public policy*. <https://documents1.worldbank.org/curated/en/975081468244550798/pdf/multi-page.pdf>
- Tonby, O, Woetzel, J., Choi, W., Seong, J., & Wang, P. (2019). *Asia's future is now*. (Discussion Paper). McKinsey Global Institute. <https://www.mckinsey.com/featured-insights/asia-pacific/asias-future-is-now>
- United Nations Conference on Trade and Development. (2020). *World Investment Report 2020: International production beyond the pandemic*. [https://unctad.org/system/files/official-document/wir2020\\_en.pdf](https://unctad.org/system/files/official-document/wir2020_en.pdf)
- West, J. (2018). *Asian century ...on a knife-edge*. Center for Global Discovery, Sophia University. <https://doi.org/10.1007/978-981-10-7182-9>
- Yuda, M. & Sharma, K. (2019, September 23-29). Up in the Air. *Nikkei Asian Review* 295, Nikkei Publishing, pp. 32-35.
- Zhou, L. & Tan, N. (2020, August). *Post-COVID supply chain reconfigurations: Convergence or divergence in ASEAN economic integration*. (API 2020 Briefing Paper No. 1). ASEAN Prosperity Initiative, pp. 16-28.