Upgrading Human Capital and Skill Development for Future Asia

Overcoming Double Income Traps in Thailand and Myanmar

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Summary

- Income traps:
  - Significance of income trap
  - Middle-income traps: Thailand
  - Low-income traps: Myanmar

- Migration and Income Traps
  - Causes and consequences of migration

- A case study in Myanmar: Migration as development pathway or a poverty trap?

- Skill Development for Future Asia: Migration Coordination
  - Leveraging migration for skill upgrade
  - Circular migration for skill transfer
  - Coordinated flying geese for the next miracle
Significance of Income Traps and Migration

- Years of middle income was much longer in Latin America
- Developing Asia achieved quick transition in income.
- RoKorea - most remarkable, Malaysia, Taipei, Hong Kong too.
- Thailand is stuck in MIT for nearly 40 years while Myanmar did not transit till 2016 from low income (but fell back to low-income this year after currency fall)

Source: Estrada (2017)
Conceptual framework: Income traps

• Middle Income Traps – Thailand for 40 years
  • countries that have experienced rapid growth, which enabled them to reach the status of a middle-income country but did not achieve high-income status - instead they became caught in the middle-income range (the so-called middle-income trap). (Glawe & Wagner, 2016)

• Poverty (Low Income) Traps – Myanmar for 55 years
  • countries more at risk to stay poor due to the conjunction of low human capital (measured as Human Assets Index - HAI) and high structural vulnerability (measured as Economic Vulnerability Index – EVI) making them as “least-developed countries” where likelihood of a trap due to the interaction of low human capital and high structural vulnerability: growth lag explained by this interaction (UNCTAD, 2016)

• Common characteristics of income traps
  • Matsuyama (2008) and Azariadis and Stachurski (2005) emphasize common characteristics of an income trap:
    • a self-perpetuating or self-reinforcing mechanism.
    • difficulty breaking out of it.
    • its persisting character (‘stable steady state’).
Nexus between income traps and migration

- **South-North Labor and Brain Drain**: Where the pattern of migration and remittances locks into a semi-permanent arrangement, then this may be a developmental trap for the South whereby, the South forgoes self-development in favor of being a long-range bedroom community to supply the labor for dirty, dangerous, and difficult jobs in the North. (Ellerman, 2005)

- **Dual Poverty Trap**: When parents are uneducated, their children often face difficulties in finishing school and therefore are likely to remain uneducated. Moreover, if children expect that other children of the same generation will not receive an education, they expect that firms will not create enough jobs for educated workers, and thus are further discouraged from schooling. These intergenerational and intragenerational mechanisms reinforce each other, creating a serious poverty trap. (Hori and Sasaki, 2012)

- **Skill-downgrading, Skill mismatch**: Migrants with higher education are often relegated to jobs that require a lower educational/skill attainment in the host countries – indicating a skill downgrading in their occupations. At the same time, migration-induced shift in the labor supply of better educated foreign workers potentially displace the least-skilled native workers. (Muysken et al, 2015)
Evidence from Myanmar: Low income trap

• An already slowing economy decelerated further because of a weak external environment, unfavorable weather, and uncertainty about the direction economic policy will take under the newly elected government. (ADB, Outlook 2018)

• FDI is crucial to Myanmar over the medium term to finance its persistent current account deficit and support growth. Although remittances and development assistance can cushion the growing trade deficit, substantial current account deficits will remain and need to be financed sustainably by FDI. Among many factors for declining FDI, lack of skilled labor is a key barrier. (WEF, 2017)
Migration in Mon State: A Case Study

- South-Eastern Myanmar with 2-3 million people, located in one of the most dynamic center of migration flows
- Mawlamyaing (Moulmein) = fourth largest city in Myanmar, pop about 400k
- Connectivity to Thailand (physically, culturally, historically)
- Vibrant rural economy = rice + rubber, fruits to a lesser degree
  - Relatively well off compared to other regions
  - Income, education, nutritional outcomes, etc.
  - Relative peace compared to neighboring ethnic states due to long-standing ceasefires
  - Recently operating electricity plants
Mon State: Small-open economy, vibrant out-migration

Mon state has the highest number of international migration (the darker areas are higher) in both sexes

Source: MoLP, 2016

Mon state is one of five regions in Myanmar with highest domestic out-migration rate (yellow) while receiving very high in-migrants unlike others.

Research Work

- Field survey during May-June 2015
  - 1680 Households
  - 140 enumeration areas (12 hh / EA)
- Qualitative surveys in late 2015
  - In-depth household interviews
  - Focus group discussions on community questionnaires
- Key informant interviews and consultations
  - Regional government officials – May 2016
  - Seminar with newly elected regional parliamentarians in August 2016

8/23/2018
Beyond safe migration: Profiles of migrants

- Large percentage of young migrants as well as under-age children
- Large percentage of low-skilled labor who never completed primary schooling
- Low average years of schooling

<table>
<thead>
<tr>
<th></th>
<th>All migrants</th>
<th>By gender</th>
</tr>
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<tbody>
<tr>
<td>Percent female</td>
<td>45.6%</td>
<td>Male</td>
</tr>
<tr>
<td>Mean age at time of departure</td>
<td>24.0</td>
<td>24.3</td>
</tr>
<tr>
<td>Percent under 16 years old</td>
<td>8.4%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Average years of schooling</td>
<td>5.1</td>
<td>4.9</td>
</tr>
<tr>
<td>Who never completed primary schooling</td>
<td>26.6%</td>
<td>27.3%</td>
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Benefits of safe migration: Recent exodus of migrants due to bilateral cooperation since 2012 (Legal reforms in both countries and MoU process)
Impacts on migrant-dependent households

• The youth (57%) and adult (37%) or active-employment age are highest categories of migrant; High level of families with children living with seniors (grand-parents) are facing vicious cycle of low education, early drop-outs and dependency on migration.

• Use of remittances in migrant dependent households are not channeled into productive investment; business investment is lowest – 6.4%, instead, remittances fuel consumption and construction boom, cursing remittance-dependent families to migrate more/long
Evidence from Thailand: Middle income trap

• In 2017, agriculture grew by 6.2% on better weather, while the service sector expanded by 5.3% with surging tourist numbers. Manufacturing growth continued to be feeble at 2.5% and construction contracted by 2.3% as infrastructure projects slowed. The prospect of transitioning to high-income economy remains a challenge.

• What made Thailand fallen into the trap?
  • Dependency on cheap (Myanmar) migrant workers
  • Dichotomous private sector: while limited numbers of big firms are competing in global markets, vast numbers of small and medium-sized firms are locked into low levels of innovation. (TDRI, 2012)

• Will Thailand succeed in Industry 4.0?
  • The most critical need is upgraded workforce skills; and policy challenges are promoting the study of science, technology, engineering, and mathematics in higher education institutions; and forging stronger collaboration between educational institutions and the private sector.
Skill development for future Asia: Migration coordination?

- Myanmar and Thailand has relaxed labor market constraints inducing large outflows of Myanmar migrants to Thailand since 2011. The sending country, Myanmar, could benefit from inflows of remittances and other gains (Pritchett, 2006; Clemens, 2011; Winters, 2001; Walmsley and Winters, 2003).

- However, the design of safe migration policy should improve further by facilitating coordination on skill development, pre-departure training and long-term human resource development strategies in order to avoid “income traps.” Some policy options are:
  - Lowering the cost of official-channel migration (broader coordination)
  - Collaboration in skill-development and training program (deeper coordination)
  - Circular migration for skill and technology transfer and FDI linkages

- Flying geese model for Asia needs to be upgraded – as young geese (late comers) need better coordination with older geese to catch up.