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Labor markets and informality: the case of Central Asia

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Central Asian “stans” – Uzbekistan, Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan – jointly have 31.4 million people in the labor force (See table 1). The largest labor share belongs to Uzbekistan (13.6 million) and the smallest number live in Turkmenistan (2.3 million). Labor force participation rates in these economies, as a legacy of Soviet period, are high and, in Turkmenistan and Uzbekistan, at comparable level with advanced economies like South Korea. In Kazakhstan, Kyrgyzstan and Tajikistan labor force participation rates are even higher than in other economies.

These five economies, as graphs below show, have commonly experienced a sharp decline in the gross domestic product (GDP) growth rates in early transition period that led to decline in the number of employed. For the most of the period between 1990 to 2000 growth rates remained negative. This resulted in the sharp decline in the demand for labor due to decline in the domestic demand for goods and services. Job growth rates were low and negative especially in relatively more industrialized Kazakhstan. Tajikistan and Kyrgyzstan have experienced political instabilities that again decreased job creation rates. Uzbekistan and Turkmenistan with their precautious approach to reforms and also relatively low levels of industrialization at the start of the transition had stable growth in the number of employed. Another commonality in these economies positive growth rates were driven in commodity industries that have low labor intensity. This is specifically so Kazakhstan, Turkmenistan and Uzbekistan that respectively increased depletion of oil, gaz and furious metals plus favorable export prices have additionally improved their growth rates. Thus recovery in the GDP growth rates did not result in proportionate increase in the number of employed.

Unemployment figures, according to ILO estimates are much higher relative to economies like South Korea. However, these estimates vary across sources and therefore are largely arguable. For instance, ILO estimates 10 percent unemployment rate for Uzbekistan, whereas Ajwad et al., (2014) based on Uzbekistan national household survey for 2013 by the World Bank and GIZ report 1.5 percent unemployment rate. Which is in line with McKindly et al. (2003), who explain that few people in these economies can afford to be as unemployed due to modest unemployment benefits.

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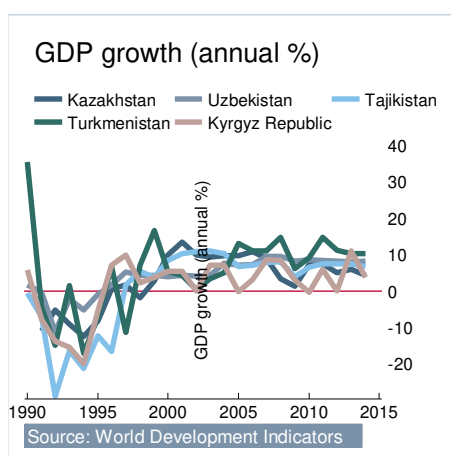


Table 1. Selected development indicators

	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan	South Korea
GDP per capita (current US\$)	10,508	1,103	926	6,948	2,132	27,222
Population (1,000,000)	17.5	5.9	8.4	5.3	31.2	50.4
Labor force (1,000,000)	9.2	2.7	3.6	2.3	13.6	26.1
Population growth (annual %)	1.5	2.1	2.2	1.2	1.7	0.4
Age dependency ratio (% of working-age population)	50.3	55.3	60.9	47.9	49.7	37.2
Labor force participation rate, total (% of total population ages 15-64) (modeled ILO estimate)	78.9	71.2	70.9	64.7	65	66.1
Self-employed, total (% of total employed)	30.6	43.3	47.8	-	-	27.4
Unemployment, total (% of total labor force) (modeled ILO)	4.1	8.1	10.9	-	10.6	3.5

Source: World Development Indicators (accessed August 2016).

Another commonality among the Central Asian economies is the increase in the number of self-employed. In 2014 according to World Development Indicators database, see Table 1, Kazakhstan, with its highest income per capita in the region, has 30 percent of its work force as self-employed. In Tajikistan and Kyrgyzstan, that have much lower GDP per capita, 47.8 and 43.3 percent of the labor force, respectively, have a “self-employed” status. These are still lower than average for low-income and lower-middle-income

countries, for which Fields (2013) respectively reports 53 and 36 percent of the labor force being in the self-employed category respectively which is much higher than in South Korea, where self-employed constitute 27.4 percent of labor force. Differences may also persist in the types of self-employed, no accurate statistics exist that show share of people who are forced to stay as self-employed because they lack access to wage employment and those who have chosen to be self-employed. Fields (2013) reports that for the most of the developing countries the first group dominates and therefore self-employment is associated with poverty. Indeed, Musurov and Arabsheibani (2014) report that 40 percent of self-employed women are obliged to be in this status due to lack of adequately waged jobs.

Decrease in the GDP rates in the early years, and structural transformations in the later year and that are commonly yet to be complete across countries have resulted in the increase in informal employment in all these economies. By informal employment, we mean, as Kanbur (2014, p 5.) defines, “*those working in the [informal] sector or households, excluding regular workers with social security benefits provided by the employers and [including] the workers in the formal sector without any employment and social security benefits provided by the employers*”. The latest data show that share of persons employed in the informal sector in total non-agricultural employment accounts up to 59 percent in Kyrgyzstan (ILO-KILM, 2015). Musurov and Arabsheibani (2014), using Kazakhstan Labor Force survey report that in 2011, 46.3 percent of working-age male and 42.7 percent of working-age female were employed in the informal sector jobs. For Uzbekistan, World Bank (2014) reports that 42 percent of working age people perform informal sector jobs. CER and UNDP (2011) declares that in 2009, in Uzbekistan, as Table 2 demonstrates that 37.9 percent of people in informal sector were performing temporarily seasonal work like housing construction, agricultural works. Self-employed without registration constituted 36.3 percent.

Table 2. Distribution of informal sector employment in 2009

Type of informal sector employment	Percent
Temporary and seasonal workers	37.9
Self-employed without registration	36.3
Working without a contract	19.1
Secondary employment	6.7
Total	100

Source: CER and UNDP (2011)

Indeed, high informality levels, low number of wage-earners, and, arguably, high unemployment rates are the key challenges that Central Asian economies need to resolve. These challenges are further fostered by high population growth and will translate into more labor force in near future. Policies might turn these abundant labor resources into an engine that will fuel future growth. To do so, Central Asian economies need to improve their business environment. Measured by ease of doing business rank, shown in Table 3, these economies are far behind champions like South Korea, that ranks as the top 4-th country where regulations are the most business friendly. To improve their business environment these countries may

want to improve key components of the regulations related to crossing border trade, payment systems, access to finance and etc.

Table 3. Selected development indicators

	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan	South Korea
Ease of doing business index (1=most business-friendly regulations)	41	67	132	-	87	4
Agriculture, value added (% of GDP)	5	15.9	27.4	14.5	18.3	2.3
Industry, value added (% of GDP)	33.2	26.9	21.7	48.4	34.6	38
Services, etc., value added (% of GDP)	61.8	57.1	50.8	37	47.1	59.7
Firms competing against unregistered or informal firms (% of firms)	34.7	43.2	34.5	-	15.7	-
Firms choosing practices of the informal sector as their biggest obstacle (% of firms)	15	19.9	10.1	-	31.6	-
Number of years firm operated without formal registration	0.1	0.1	1.8	-	2	-

Source: World Development Indicators (accessed August 2016).

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