

# Human Capital Formation and Economic Growth in Asia and the Pacific

The entire planet looks to Asian and other emerging markets to sustain growth momentum as traditional markets in the USA and Europe struggle with the slow and arduous processes of deleveraging after the global financial crisis. At the same time, there is growing recognition in Asia that the sources of growth must shift to sustain their own growth momentum in the years ahead. Heavy reliance on the region's high savings rates and plentiful supplies of low-cost labour will have to shift towards increasing the human capital embodied in more educated and skilled labour forces capable of contributing to productivity growth and innovation as future drivers of growth.

*Human Capital Formation and Economic Growth in Asia and the Pacific* focuses on why and how countries are making this shift. The demographic transition is shown to be a significant factor as ageing populations in Japan, South Korea and China manage declining growth in the labour force by stepping up investments in education, and by changing policies and institutions. Lessons to be learned from these experiences by more youthful populations in Southeast Asia are explored. In addition, attention is paid to the consequences of cross-border differentials in technical knowledge and the quantity and quality of human capital. Several implications for public policy and for international cooperation on human capital issues in the Asian region are identified.

The chapters in this volume are edited versions of papers presented at the 35th Pacific Trade and Development conference held in Vancouver, Canada, in June 2012. The conference goal was to better understand how governments and business in Asia and the Pacific can apply the key insight that one of the reasons economies grow is because of human capital formation – the quality and diversity of the labour force are augmented – not just because the labour force grows in size. Students of Asia's growth prospects will find several aspects of this volume of particular value. It includes chapters on the big-picture conceptual and measurement issues; on country experiences in meeting the imperatives of the demographic transition and investing in education and skills training; and on country experiences with attracting foreign knowledge and the supply and recruitment of skills across borders in Asia and the Pacific. Policy-makers will also find useful the discussions of policy implications and the menu of issues requiring intergovernmental cooperation within the Asian region.

Wendy Dobson is Professor and Co-director of the Institute for International Business at the University of Toronto's Rotman School of Management.

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**Human Capital Formation and Economic Growth in Asia and the Pacific**  
*Edited by Wendy Dobson*

# Human Capital Formation and Economic Growth in Asia and the Pacific

**Edited by**  
**Wendy Dobson**

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# Preface

Since the onset of the global financial crisis in 2008 we have become accustomed to headlines proclaiming the rising economic clout of emerging markets. Less noticed are the caveats – that sustaining their growth depends on addressing internal and external imbalances, compensating for population ageing with higher productivity growth, and providing youthful populations with the skills required to raise productivity.

The papers in this volume analyze the caveats about human capital formation. They focus on the microeconomic dimensions of human capital formation as a driver of national growth. This is the next step beyond understanding macroeconomic insights about human capital's contributions to growth as refined in the academic literature, which stresses the importance of the quality of the educated and skilled work force, not just its size. In organizing the conference at which the papers in this volume were presented, we focused on how governments and businesses are, and should go about, raising the quality of human capital. The papers contribute to a number of key dimensions of the issue: conceptual overviews of human capital formation policies, including design issues; analyses of individual country experiences with investing in appropriately timed and accessible quantities and quality of education and skills training; examination of the development implications of the region's diverse stages of the demographic transition; issues in attracting foreign knowledge and cross-border recruiting to overcome skills shortages; and the implications for policy and for intergovernmental cooperation in the Asian region.

A subset of papers brought out the growing relevance to public policy of responses to the diverse stages of the demographic transition in East Asia. Ageing populations in Japan, South Korea, and China require policy and institutional responses that may be politically difficult to implement. Southeast Asian countries, in contrast, stand to benefit from their youthful populations – if they have the education and skills required to meet development goals; there may be lessons to learn from their ageing neighbours. All face different institutional and policy imperatives which, if neglected, can cause human capital shortages and distortions that will reduce growth potential.

A summary panel focused on the major policy implications of the findings in these papers. These include the need for greater recognition of the importance of educational attainment (rather than merely increasing enrolments); recognition of the need to change human capital endowments; and anticipation, through appropriate investments, of the transience of the “demographic dividend” during which the productive population exceeds the dependent population. Other implications include recognition that educational policies should also seek to mitigate inequalities in income and access to education. As well, international factors that influence governments' and people's investment decisions need to be recognized, such as changes in relative factor prices and the willingness of governments to cooperate in such areas as credential recognition.

This conference, the 35th PAFTAD, was held in Vancouver in June 2012. The host organization was the Asia Pacific Foundation of Canada under the leadership of Yuen Pau Woo, ably assisted by Erin Williams. They collaborated closely with the PAFTAD International Secretariat at the Australian National University's Crawford School of Public Policy under the direction of Peter Drysdale and the very able management of Luke Hurst.

A Young Fellows seminar, which preceded the conference, featured the winners of a research paper competition who presented their work to a selected group of experts. The Young Fellows then participated in PAFTAD 35. We are grateful to the University of Toronto's Rotman School of Management, the Asia Pacific Foundation, and the Australian National University for support of this innovative event.

A well-attended and spirited public forum, at which panelists assessed Asia's future growth prospects, was also held. It is anticipated that such forums will become a regular feature of PAFTAD's outreach to the public in countries hosting such meetings.

We are also particularly grateful for local support provided by TransCanada Corporation, the Toronto-Dominion Bank Financial Group and the Asia Pacific Foundation. These opportunities for forward-looking intellectual and policy enquiry would not be possible without a group of international donors. They include the Ford Foundation, the International Development Research Centre (Canada), the Korean Institute of International Economic Policy, the Taiwan Institute of Economic Research, Columbia University, Sanaree Holdings in Thailand, and the Australian National University.

Wendy Dobson  
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