Strategies for Improved Social Protection in Asia:

Labor Market Policies (Theoretical Background)

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I. INTRODUCTION

In recent years, there has been a renewed interest in social protection due to the increasing financial, economic, environmental and social instability experienced by many among the poorest countries in the world. These calamities often affect people through the labor market. Loss of work or loss of assets providing subsistence are often the first shocks in the spiral that conduces to poverty and destitution. Hence, labor markets are thought of as central institutions for rehabilitation programs when calamities occur and as central mechanisms to revert the spiral of poverty. This understanding of the role of the labor market has encouraged multilateral and bilateral donors to include labor market policies and programs into social protection strategies. This is in recognition of the fact that labor markets have important implications for people's ability to cope with adversities.

Yet, historically, in particular in some Asian countries such as Japan, LMPs have been seen as an integral part of economic and industrial policies and not as a form of social protection. By definition, LMPs address labor market problems and do not necessarily concern the most disadvantaged or those most exposed to risk in society. From an economic perspective, many analysts would agree that the primary objective of LMPs is to facilitate a proper allocation of labor resources and contribute to develop the necessary human capital so as to maximize the labor contribution to growth. This vision stems from human capital theory and more recently from advances in growth theory where human capital has been made endogenous to theoretical models.

By contrast, if we have to identify the primary objective of social protection, we would probably emphasize the aspect of protecting all individuals from adverse risks such as economic crises, wars, disability, old age, discrimination, unemployment and poverty. The primary objectives of LMPs and social protection are somehow conceptually different.

LMPs do not naturally fall into social protection by virtue of definition or content but they can be brought under a social protection strategy if they properly target groups in need of social protection. The question to ask when we want to integrate LMPs under the wider umbrella of social protection is which LMPs policies serve best the primary objective of social protection. One may discuss the benefits and disadvantages of a particular wage policy for a certain economy but for the purpose of social protection the relevant debate is about benefits and disadvantages for the most vulnerable to risks and not only for the economy at large. This is a significant shift in the debate. LMPs designed to target the unemployed incidentally target a share of the poor, although not all poor are unemployed and not all unemployed are poor. Again, if we look at LMPs with a social protection lens, the design and implementation of LMPs may be quite different from the traditional approach of LMPs.

Moreover, bringing LMPs under a social protection strategy implies the consideration of LMPs as part of a risk management framework. Risk management includes the consideration of cyclical variations, such as economic and agricultural cycles, as well as non-cyclical events such as natural disasters or conflicts. These are macro risks that may affect entire countries or regions and that have a great influence on income and labor. Also, together with these macro risks, a risk management strategy needs to consider those micro risks that affect individuals during a life cycle. Loss of income due to loss of jobs, crops or markets is an example but also risks associated with injuries and disabilities or loss of a breadwinner in a family.

There is a general agreement about the fact that governments should care not only about macro risks but also about micro risks affecting households and individuals. Hence, the search for insurance mechanisms that would protect people from ordinary and extraordinary risks. LMPs when brought under a social protection strategy can supplement social assistance and social insurance mechanisms. Education and training can be valuable tools to facilitate re-employment and alleviate the pressure on unemployment insurance. Public works is sometimes the only concrete help from the state that the unemployed receive in times of deep recessions. While the primary objective of LMPs remains the contribution to growth via human capital and labor market development, the secondary function can be understood as enhancing individuals' abilities to confront adverse risks and protecting from poverty and destitution.

In fact, the secondary function of social protection can, at times, become a primary function depending from the needs of any country in any particular time. In this case, LMPs have to be re-thought in a new light. Designing policies to target the poor implies equipping the policy maker (such as the ministry of labor) with proper tools to understand, measure, analyze and target the poor or the most vulnerable. This is no simple task in countries with limited resources where even conducting a proper household survey may be an expensive exercise difficult to afford.

A distinction should also be made between anti-poverty measures and social protection. While these two classes of policies are often taken interchangeably because they often target the same population, this is not always the case. Social protection concerns all individuals, including the non-poor. The poor are obviously more exposed to risk and usually less covered by social protection which should make them a primary target group, but social protection will still have to perform traditional functions for all in fields such as pensions and health. In fact, one important function of social protection is to prevent people from falling into poverty as well as lifting people out of poverty. In the case of LMPs, while a micro-credit scheme may be targeted for the poor, a wage policy is likely to affect mostly the non-poor and yet it can be an effective social protection measure.

In sum, LMPs, social protection and anti-poverty measures overlap to a great extent. A LMP can provide social protection as well as contributing to alleviate poverty and vice-versa, an anti-poverty measure may turn out to improve labor market functioning. This is the reason why many countries merge LMPs, social protection and anti-poverty measures under the responsibility of one ministry. However, historically and worldwide this has not always been the case as different underlying philosophies have shaped LMPs. This will be briefly explored in the next section.

This paper takes a long view on LMPs in the wake of social protection resurgence as a fundamental mechanism to assist populations at risk. Part II is a general introduction to LMPs experiences in the world and in Asia as well as to the recent experiences of two among the major multilateral agencies operating Asia. Part III identifies some important sectoral issues to be kept in mind during the design of a labor market strategy. These are followed by some financial considerations and some notes on crisis management. Part IV offers a discussion on selected LMPs. The aim is to review a possible 'portfolio' of policies suitable for social protection.

II. LMPs MODELS

A. A Global View

Very broadly, labor market models across the world have developed following what we could call the Japanese, the European and the American model. These are not recognized and accepted categories but simply the reflections of different types of approaches to labor market policies. Various countries may well fall in between this blunt categorization. The purpose of this section is simply to highlight different approaches to LMPs developed by industrialized countries in the post-war period.

The Japanese model, at least until the early nineties, relied on the principle of full-employment intended mainly as a value to be preserved in a stable society. Labor market imbalances were perceived as a major problem but one to be addressed at the company level rather than in the open market. Job separation preferably occurred when alternative employment was available while costs experienced during economic downturns were absorbed within the enterprise and with the help of the government. In the Japanese model, the emphasis was on the 'internal' labor market within the enterprise as opposed to the 'external' labor market outside the enterprise. When difficulties arose and restructuring was needed, firms were supported by the government in skills upgrading and training programs so as to preserve employment and find alternative productions suitable for the changing market. In this context, LMPs were perceived to be part of the wider group of economic and industrial policies to be managed by the Ministries of economy and industry. It is an *industry driven* form of labor market management that supports this model. In this context, LMPs could be considered as a form of social protection intended as employment protection. The Japanese model remained for long the main model for many Asian economies.

A European type of model accepts market laws and the existence of unemployment as a necessary temporary condition to facilitate and maximize the allocation of labor. Government intervention to support enterprises in difficulties is expected to be limited and the government role is mainly to support the unemployed with income maintenance and training schemes so as to facilitate job seeking and placement. The main policy objective in this case is to reduce labor market rigidities and favor matching. Unemployment support is often generous and meant to provide adequate income maintenance. Responsibility for LMPs lays very much with the ministries responsible for labor and social protection while other ministries become necessarily involved when claims are made by workers, trade unions or employers' associations. In this case, governments often allow concessions of various kinds, including direct support to enterprises, for the sake of social stability. It is a *social driven* type of labor market management that is emphasized.

The American model focuses on the demand side of the labor market by limiting government intervention to a great extent. The main objective is to maximize labor contribution to growth.

Enterprises are relatively free to dispose of labor according to economic fluctuations while the government attempts to maximize mobility of workers and minimize other labor market rigidities such as minimum wages, hiring costs and mismatching. The unemployed are supported but expected to be very active in job seeking or employment generation and strict rules are applied to unemployment duration and compensation. The American model arises from a very different perspective of the one of social protection. The underlying philosophy is that growth eventually reaches all those in need and that short-term investment and growth targets will naturally achieve long-term employment objectives through the market. This is a form of *market driven* labor market management.

B. **The Asian experience**

The Asian experience has been rather diverse according to what influenced the development of LMPs the most. The Central Asian Republics (CARs) lived the life of the Soviet Union until 1990 and then experienced the transitional reforms during the 1990s. Mongolia followed a similar path, though not formally part of he Soviet Union, while China and Vietnam are going through market reforms with an intact single communist party. Other countries in East and South-East Asia such as South Korea looked at Japan as the raw model of development and developed LMPs accordingly while South-Asia experienced heavy state intervention until the important reforms of the1990s.

Among Asian Transitional Economies (ATEs), the Central Asian Republics (CARs) were part of the Soviet system where labor markets did exist but were heavily planned, where unemployment was officially unknown though existing in many areas, and where large portions of the labor force were underemployed and employed in technologically obsolete large enterprises. The post-1989 central issue in these countries has been privatization and restructuring of State Owned Enterprises (SOEs). This largely failed and resulted in growing unemployment and underemployment and a severe slump in output and wages. These economies have yet to fully recover and during the nineties have experienced a process of informalization and fragmentation of the labor market that is making recovery a very arduous task indeed. The dismantling of the Soviet labor market system has paved the way for the introduction of a more liberal system. In theory, the labor market framework adopted is similar to the European model but in practice the application of such a model is hampered by the slow pace of real privatization and real restructuring.

For China first and Vietnam later the transition to a market economy started from agriculture. These societies were mainly rural and households had already a certain degree of control over the land. When the first reforms allowed households to keep the fruit of their productions, productivity started to increase dramatically. This eventually liberated large quantities of human resources for the growing industrial coastal cities. Rapid changes in the economy led to changes in regulation on labor mobility, housing and residency, the establishment of support mechanisms for the unemployed and also for the employed in State Owned Enterprises (SOEs) facing major restructuring challenges. These countries can now count on substantial growth patterns and budget revenues but are facing major unprecedented challenges in terms of rapid urbanization and mass unemployment that growth alone cannot address.

There is an interesting parallel to be made here between the Soviet Union on the one hand and China and Vietnam on the other. The Soviet Union has been often described as a fast reformer relatively to China. That is because privatization, price liberalization and trade liberalization occurred over a relatively small period of time. However, real changes in enterprises and the economy at large have been very slow indeed and the great majority of the populations of the former Soviet Union have yet to enjoy any degree of participation or benefit from the reforms. By contrast, China and Vietnam are usually described as slow reformers referring to the pace of reforms. Yet, such reforms have been made for the most to enjoy and they have been subscribed and supported by populations eager for change. Changes in the real economy have been tremendously fast; in fact, too fast for governments to cope. While both groups of countries face today large unemployment and difficulties in dealing with SOEs restructuring, China and Vietnam have a definite advantage in having a buoyant economy that can better afford to cope with such problems.

Some South-East and East-Asian countries have traditionally looked at Japan as a raw model for LMPs. South-Korea until the early nineties had adopted a very similar approach to the Japanese model by encouraging large enterprises to maintain labor and managing the labor market from the demand side. Firms were encouraged to manage fluctuations in aggregate demand with internal labor restructuring. Trade unions' role until the 1990s was severely restricted and a general tight control was exercised from the state on the labor market. In this respect, countries like Singapore first and Malaysia later have shown similarities in that they also preferred to keep a tight control over employment in enterprises, discourage workers' associations and focus on growth and productivity by heavily investing in technology, education and training. The success of these countries in achieving long-lasting growth and the achievement of full employment in the early eighties encouraged governments to maintain the labor market approach and the double target of full employment and sustained growth.

During the eighties and nineties, increased levels of education and continued dissatisfaction with tight rules on topics such as freedom of association and minimum wages led to increased social unrest and eventually some concessions on the part of governments. Moreover, the financial crisis of the late nineties hit these economies hard and exposed some structural deficiencies in labor and financial markets as well as creating an unemployment problem of an unknown dimension until then. These factors are leading some Southeast and East-Asian economies to reconsider their labor market approach.

The countries of South-Asia emerged from the colonial period with great expectations. The newly established states drove the economies with large investments in state companies that eventually became the driving force of production. With the rising of globalization and international competitiveness during the 1980s it became increasingly clear that labor laws and regulations were too restrictive and that SOEs were burdened by over manning and poor competitiveness. Budget deficits contributed to the realization that reforms towards stabilization and liberalization had to be undertaken. Stabilization reforms initiated the process with restrictionary consequences on the economy and the deepening of labor market problems. Privatization and liberalization measures which followed, while increased competitiveness, also added to the masses of retrenched workers. As a reaction, governments were forced to introduce social protection mechanisms such as the National Renewal Fund (NRF) in India. Today South-Asia is benefiting from sustained growth but many of the problems related to SOEs, retrenched workers and unemployment remain in need of solutions.

The countries of the Pacific benefited more than any other region in Asia of substantial aid flows for a long period of time. In addition, the region has traditionally benefited from favorable trade agreements with the major trading blocks such as the United States and the European Union. Returns to such aid and trade facilities have been disappointing and most economies have not been able to develop and diversify so as to become valuable competitors on the international scene. In addition, a certain dependency culture on aid had developed in some of these economies that, together with increased levels of social instability, is contributing to hampering further changes. Yet, needs and expectations cultivated by populations exposed to globalization have grown and this contributed to attract many people, especially the young, from remote areas to urban centers. As a consequence, urbanization became a new phenomenon that fragile ecosystems such as islands have obvious difficulty in sustaining, particularly if the urban economy is not able to provide adequately for all new comers.

How much can be learned from the experience of industrialized economies and should models be imitated? The countries of the FSU have largely imitated the European LMPs model with little consideration for the nature of unemployment in transition and the real financial possibilities. For instance, employment services in Kazakhstan during the late 1990s were well established, disposed of modern IT means and of a reasonable information and data analysis system. However, the number of unemployed actually reached by the system was about one fourth of the unemployed, unemployment benefits did not provide the income maintenance functions they were designed for and enterprises routinely bypassed the employment services. This led the government to substantial reforms in 2000 including the elimination of unemployment benefits. Employment services are costly to maintain for poor governments. Perhaps a better focus and more investments on enterprise restructuring and less emphasis on the employment services system would have served better the cause of the unemployed. Unemployment in the FSU remains a demand deficit problem rather than a labor market flexibility problem that can be addressed by employment services alone.

The FSU experience may be a useful lesson for other Asian countries undergoing labor market reforms. The lesson here is not whether employment services should be established or not but whether a system designed for mature industrialized economies facing problems of labor market flexibility can be exported to largely rural societies facing budget constraints, severe poverty and growth problems. The international experience is clearly important but so is the need to encourage creative thinking by local governments who have a better 'feeling' for local conditions. Countries that have experimented with measures adapted to and born from local realities such as the Grameen bank in Bangladesh, the Marahasthra public works scheme in India or the Mahalla social protection system in Uzbekistan have shown that answers to local problems can be designed and provided locally.

C. **The Multilateral agencies approach**

Many development agencies operate in Asia but two of these deserve closer attention given the experience on social protection: The ILO and the World Bank. The International Labor Organization (ILO) is the oldest of the multilateral donors and a pioneer in many aspects of labor market policies. The agency has been the cornerstone for the development and implementation of international labor legislation and to these days the great bulk of activities are on labor legilsation. However, during the 1990s the agency experienced a process of internal restructuring based on the Active Partnership Policy (APP) approach designed to better respond to the needs of the beneficiaries. This framework contributed in generating a re-organization of the institution with a focus on decentralization which has fostered an expansion of activities towards social protection and poverty issues.

The ILO in Asia is currently very active with the APEC programme designed for child labor but labor market interventions are wide ranging including employment promotion and poverty alleviation, human resources development, migration policies, industrial relations policies, international labor standards, workers' protection, labor administration and statistics. The ILO act mainly in form of advisor to local governments while funding is supported by various sponsors, usually bilateral or other multilateral development organizations.

Within the social protection framework, the ILO has developed an 'InFocus programme on Socio-Economic Security'. The programme is based on the concept of basic security for all and its main objective is '*(...) to work towards developing a sound knowledge base and policy framework, contributing to the founding of a just society that provides work-based security to all*'. The strategy is based on seven pillars:

Labor market security – Adequate employment and work opportunities, through high levels of employment ensured by macro-economic policy;

Employment security – Protection against arbitrary dismissal, and employment stability compatible with economic dynamism;

Occupational security – A niche designated as an occupation or "career", the opportunity to develop a sense of occupation through refining competences;

Work security – Protection against accidents and illness at work, through safety and health regulations, regulated limits on working time, unsociable hours, and a reduction in stress at work;

Skill reproduction security – Widespread opportunities to gain and retain skills, through innovative means as well as apprenticeships and employment training;

Income security - Provision of adequate incomes;

Representation security - Protection of collective voice in the labor market, through independent trade unions and employer associations and other bodies able to represent the interests of workers and working communities[1].

The World Bank has been working intensively during the year 2000 to develop a new social protection framework. The agency has a relatively long history in supporting social protection projects. It has been calculated that labor components alone during the 1990s were present in about one fourth of all projects between 1992 and 1998. Public works was by far the labor market component more present followed by support to micro-enterprises, training and support to labor market information and monitoring systems. The lending volume on social protection in 1999 was 3.76 billion, 13% of the World Bank total[2].

The World Bank approach revolves around the notion of Social Risk Management. According to the agency: *'The concept of social risk management asserts that all individuals, households and communities are vulnerable to multiple risks from different sources whether they are natural ones (such as earthquakes, floods and illness) or man-made ones (such as unemploymnet, environmental degradation, and war). (...)*'. As a consequence of this new approach, and in the area of labor markets, this implies risk reduction and risk mitigation strategies such as assisting governments to make labor markets more equitable and inclusive, enhance pre and in service skills building, eliminating harmful child labor, improve income security and provide for appropriate unemployment benefits[3].

Thus, it is evident that both the ILO and the World Bank, two among the most active multilateral agencies in Asia, have put labor market policies at the core of their social protection strategy. In fact,

1. www.ilo.org
2. Dar. A. and Tzannatos, Z. (1999) 'World Bank Lending for Labor Markets: 1991-1998', World Bank SP Discussion Paper No. 9902
3. Holzmann, R. and Jorgensen, S. (2000) 'Social Protection Sector Strategy: From Safety Net to Trampoline.', World Bank, Social Protection Unit.

most bilateral and multilateral agencies operate in Asia and many have labor related projects particularly in the field of child protection which is an area currently attracting considerable funding. Conditionalities regarding labor aspect are sometimes visible not only in World Bank lending but also in IMF packages or bilateral donors aid. Perhaps, one important issue which is emerging as a consequence of changes occurred among development agencies in the fields of social protection and labor market policies is the question of coordination of interventions. Such corrdination necessarily emanates from a common understanding of labor markets and a common phylosophycal approach to policies which, at the moment, is not clearly visible among donors. This is a major challenge for the years to come if the risk of seeing contradictory policies at the local level is to be minimized.

III. KEY ISSUES IN LMPS DESIGN

The labor market in developing countries including Asian DMCs, is typically segmented along many different lines. By segmented it is meant that workers have difficulty in moving from one labor market segment to another because of barriers such as distance from alternative markets, entry requirements, education and skills requirements or discrimination based on status or ethnic group. For instance, workers that start their career in the public service rarely move to the private sector later on mainly because of the different skills they develop during their working career. Workers in heavy industry rarely move to the service sector during their working life because they don't usually have the professional qualifications required by the service industry.

It is easier for workers to move from the formal to the informal sector or from wage employment to self-employment because both the informal sector and self-employment do not usually have significant entry barriers. However, the transition between these different statuses implies often a 'hard' choice such as deciding to move residency or deciding to pay taxes. These hard choices are effective barrier to labor mobility making labor segmentation a common feature of any developing economy. This phenomenon is less acute in industrialized countries because the 'fracture' between rural and urban areas is less marked, the formal and private sectors are larger and workers dispose on average of more opportunities to move, study and generally adapt to different labor market specificities.

It is important to understand labor market segmentation when we approach the issue of LMPs. While one of the general aims of LMPs is to reduce barriers between segments in the labor market, it is also necessary at times to target certain segments rather than others. And policies in this case should be segment specific and respond to specific needs. In the following sections some of the specificity of various labor market 'segments' are explored.

A. Public and Private Sectors

The distinction between private and public sectors is relevant for LMPs particularly in transitional economies. In the Central Asian countries, most policies including LMPs are geared or should be geared towards private sector development in an attempt to reduce employment in SOEs from the quasi-totality of employment as it was in 1989. In China and Vietnam employment in the state sector at the beginning of reforms was much smaller, around 20% of employment, because of the much larger share of employment in small-scale agriculture. While these latter countries also face a problem with dismantling large SOEs, the more important issue is the absorption of excess labor from agriculture. In the Central Asian economies, instead, LMPs face a much more important task in trying to facilitate enterprise restructuring. The growth prospects of these last countries are almost entirely dependent on enterprise restructuring.

There is also a need for designing LMPs for the public sector. This has two aspects. One is the reform of the public administration and the other is the privatization of State Owned Enterprises (SOEs).

The reform of the public administration has an important impact on labor markets in countries where the formal wage sector is largely constituted by the public sector. The public sector in poor countries is often one of the few employers of university graduates. Broad restructuring of the public administration encouraged by donors and budget deficits implies the lay off of large numbers of highly educated people. In poor countries, there are often little alternative options for university graduates given that the private enterprise sector is small and usually requires low skills. The experience in Latin America has shown that the creation of a pool of highly educated and unemployed workers can have serious negative consequences on social stability. It is obviously costly to maintain a large public administration but it may be more costly to maintain retrenched and highly educated workers with no obvious alternative in the open market. Instead, it is always possible to expand the functions and workload, not the staff, of the public administration and provide a better qualitative and quantitative service to the population. This potential for expanding the output of existing public administrations is an aspect that has received little attention.

The privatization of SOEs is currently an important issue not only in the transitional economies but also in countries traditionally characterized by large state sectors such as India or Bangladesh. A period of sustained growth such as the one that India is experiencing is obviously the moment for proceeding with privatization but this requires an important effort in re-training and often re-location which is likely to exclude older workers. This adds to the already persistent problem of youth unemployment restricting further labor force participation at the two tail ends of the working age spectrum. The issue at stake in this case is how to include and not exclude groups at risk during privatization processes.

B. **Urban and Rural Areas**

LMPs sometimes ignore macro differences between areas. For instance, when labor market exchange systems are set up, these tend to be equally distributed on the country's territory and assigned similar functions and resources countrywide. This often turns to be a major drawback in rural areas where infrastructures and transportation are more limited and where the distinction between employed and unemployed persons or formal and informal activities are somehow blurred. Rural employment services become in this way redundant, over-staffed, ineffective or unable to serve the purpose they were designed for. In fact, in countries where the rural population is still the majority of the population and where villages constitute the backbone of society, a more effective way of delivering LMPs is through villages organizations or community services and not through provincial or district employment services.

There are also labor market problems that are typically either urban or rural. Youth and female unemployment is usually prevalent in urban areas because in rural areas young people and women in need of a job occupy themselves with various types of agricultural or household duties appearing in statistics as employed or economically inactive rather than unemployed. Seasonal labor is typically a rural phenomenon and policies designed to support seasonal workers have to be rural based. Intra-household income distribution is also typically different in urban and rural areas and offering training or public work to households in urban or rural areas can have very different repercussions over household income. A simple but often overlooked point is made here. When designing a LMPs strategy, a proper way to start the planning is by separating policies for urban and rural areas.

C. **Formal and Informal Sectors**

Despite worldwide efforts to define what the informal sector actually is, the most internationally recognized definition of informal sector produced by the ILO's 15th international conference of statisticians leaves much to be desired in terms of applicability. This is probably due to the nature of the subject and to the multiplicity of ways in which different people think about the subject.

In relation to SPPs and LMPs, the concern is whether policies effectively reach not only those who are at risk in the visible and formal economy but also those who are less visible and operate in more informal activities and are therefore less likely to be registered in at least one of the social security schemes (the health, pension, social assistance or the unemployment benefits schemes).

This concern may not be well served if we categorize the population according to formal and informal status for three reasons: First, as explained above, a clear definition of the informal sector is hard to find and therefore implementing LMPs along this categorization is arduous; Second, even if we had a clear definition, in rural areas the distinction would be very much blurred anyway for the very nature of agricultural work that constantly varies from farming to animal raising, home production and products' marketing. Even during the same day, an agricultural worker may be moving from formal to informal activities, assuming we had a clear definition of the subject. Third, many workers in the formal and even government sector hold two or more occupations. In many South, Central and South-East Asian economies is openly recognized that public wages are insufficient for living and public employees compensate with secondary informal occupations.

For the purpose of social protection, it is important to find a definition that separates those people in the labor force who usually benefit from social protection and those who don't. This purpose may be better served by defining employment in terms of-wage and non-wage sectors. The wage sector is the sector regulated by contractual agreement; i.e. the sector where formal employees are. In economies largely rural and with an important informal urban economy the wage sector is quite small. Public sector employees -including the civil service, the military, medical and educational personnel – employees in private enterprises formally registered and with a certain number of employees (basically large and medium enterprises) are the core of the wage sector and those who also contribute to the various social contributions and taxation. In South-East Asia, for instance, the share of wage employment over total employment is typically between 10% and 15%.

The wage/non-wage distinction applies to employment. However, the unemployed can also be divided following a similar approach. The registered unemployed (registered at employment services) typically look for wage employment while those not registered can look for both wage and non-wage employment. While the first group is assisted by labor market policies, the second falls out of the social protection net unless voluntary contributions schemes are in place.

A classification along wage and non-wage sectors also allows for better addressing re-distributional issues between those typically assisted by social protection schemes and those who are not. LMPs are generally financed by levies on both employers and workers belonging to the wage sector. As a consequence, where the will to offer LMPs to the non-wage sector exists, the wage sector is called to 'subsidize' the non-wage sector. Hence, the big challenge for the expansion of LMPs coverage is how to target the non-wage sector such as the self-employed and individual farm labor by minimizing the burden on the already weak wage-sector.

Hence, in terms of LMPs coverage and delivery, the distinction between wage and non-wage labor seems more useful and applicable than the distinction between formal and informal sectors. The wage sector in developing countries is quite clearly defined, it is easy to measure and clearly distinguishes itself from the non-wage sector because it pays social contributions and taxes. It is also the sector that normally benefits from LMPs.

D. **Economic Sectors**

The main distinction among economic sectors is typically between primary (natural resources and agriculture), secondary (industry) and tertiary (services) sectors. This distinction is useful for LMPs purposes because identifies sectors with clearly different needs, capacity and potential in terms of employment. Moreover, historically there has been a close association between economic development and the development of the different sectors with export of raw materials coming first followed by the development of industry and services.

Thus, the economic sectors' classification is useful to keep in mind during the planning stage of a LMPs strategy. However, especially in the case of Asian economies, industry needs a closer attention. The transition from a rural to an industrialized economy occurs principally via manufacturing. That is because excess labor in agriculture is typically low skilled and it can be properly re-employed only in simple and often repetitive tasks. Also, manufacturing is the sector that has the potential to employ and absorb quickly the largest number of people. Those countries that have successfully managed to reach and maintain full-employment they did so by developing manufacturing first. Therefore a special attention in LMPs needs to be paid to the manufacturing sector.

What is the industrial plan for the country? What are the manufacturing sectors that offer the best potential for growth and employment? What policies could encourage investment in such sectors? Who is going to gather and channel the necessary investments? What skills are needed in emerging manufacturing sectors? These are some of the questions that need to be addressed before a LMPs plan can be drafted.

E. Gender Policies

Gender issues are critical when it comes to LMPs. There is worldwide evidence about a bias against women when it comes to education, employment and wages while there is little evidence about a lower productivity of women in employment. Some policies that target women only have proved to be effective in improving labor markets and alleviating poverty. For instance, policies that focus on the improvement of girls' school attendance have proved to ameliorate the health and welfare of future households and to increase the probability of escaping poverty.

One of the central issues here is how to encourage female participation and equal gender opportunity in the world of work without upsetting cultural values, family life and social stability. The route for the formal and urban sector may be to alleviate the task of motherhood for working mothers by establishing proper support mechanisms at work and at home such as kindergartens or maternity leave legislation. By contrast, in prevalently rural economies, LMPs may not be the best means to improve equal gender opportunities in the labor market. In some cases, water and sanitation infrastructures can do more for women than a kindergarten by reducing the time needed to collect water where this is a traditional female task.

Other than the human rights argument for equal gender opportunities there is also a valid economic argument. Bringing women into full employment at equal wage increases the potential for growth of any economy and allows exploiting at best local labor as opposed to immigrant labor. Countries such as Singapore have been trying hard to encourage women into work so as to keep internal labor supply up to demand requirements and to avoid massive immigration.

A gender perspective should not be limited to women issues only. In some occasions, such as during the transition to a market economy in Central Asia, men have suffered more than women in areas such as labor markets and health. Men have shown to be more vulnerable to psychological shocks induced by loss of work, income and status. They show higher statistics in unemployment (when measured including job-seekers and discouraged unemployed), morbidity and mortality among working age populations.

Men related problems are rarely addressed because in popular imagination, men are wrongly thought as 'non vulnerable'. While this is an issue that deserves some attention, it needs not to be in contrast with policies aimed at addressing the existing and more acute discrimination against women. Male unemployment is a recognized cause of male depression, alcoholism and domestic violence against women and children. It is not simply by using coercive methods to stop alcoholism and violence that these issues can be tackled effectively but also by trying to address the psychological devastation produced by unemployment in the male character. This entails an open recognition that males are more psychologically vulnerable than women when it comes to loss of work and loss of status. Again, LMPs have an important role to play in addressing this complex gender aspect.

F. **Managing a Crisis**

An additional aspect to be considered in LMPs design is whether the country needs to respond to a particular crisis – war, natural disaster, economic slump – or if it needs to set up long-term institutions to be better equipped for labor market management. In the case of many Asian economies affected by the recent crisis, the understanding is that the crisis exposed social protection systems that were simply neglected during the good years and incapable of responding during the first major economic downturn. The crisis has in fact sparked a debate and a reconsideration of SPPs in Asia and many countries are now equipping themselves with more comprehensive SPPs systems.

However, the question that arises is whether the labor market problems generated by the crisis will persist in the years to come or, rather, if this is a temporary phenomenon. During the Southeast Asian crisis, many countries such as Thailand and Vietnam have come to the conclusion that an unemployment benefit system is a necessity. However, because of the very crisis, a comprehensive unemployment benefit system will not be introduced for some years to come. This means that the system will come too late to provide for the victims of the first crisis. On the contrary, once the system is in place, it will be a costly administrative structure to maintain. Southeast Asian economies may well show that unemployment will persist in the years to come (therefore justifying an unemployment benefit system) but the question of timing and choice of LMPs in response to such crisis needs to be addressed.

From a financial perspective, the obvious consequence of an economic crisis is the double effect of reduced budget revenues and increased expenditure needs. As most governments in poor countries act under budget constraints, budget revenues decline turn forcibly into expenditure cuts. And, in times of crisis, expenditure cuts have to be made in sectors that absorb a great deal of resources such as health, education and labor programmes. In other words, a government budget undergoing severe difficulties can hardly cope with the emerging needs determined by the economic crisis in the social sphere.

This issue is likely to remain unresolved unless budget management becomes a long-term activity where budget surpluses are run in good times to save for the bad times. This is notoriously an arduous task for democratic governments who struggle to stay in power. Although this is one way of confronting crises, more pragmatically a government could prepare itself with a cost reduction plan that put at its core the most vulnerable in times of crises. For instance, automatic cuts in defense expenditure or sale of non-strategic assets in order to maintain social expenditure levels. The menu options can be many but the point here is for governments to be prepared with a budget crisis plan made of budget cuts and reallocation to be easily and promptly implemented when needed.

G. **Financial Considerations**

A first general consideration regards LMPs status. Labor Policies suffer often from a ‘second class’ stigma that leads governments to allocate a relatively small portfolio to the ministry of labor.

Though this is less true for, say, health and pensions, social protection is often not the favorite area of intervention of poor governments. An institutional re-organization will need to address this problem by rendering the ministry responsible for social protection measures a strong ministry vis-à-vis the ministry of Finance. This is necessary to guarantee a sustained flow of resources for social protection measures.

LMPs can be financed from the general budget and therefore from general taxation or they can be financed from direct levies from enterprises, workers or both. In the case of education and training the use of user's fees is also possible.

Financing from the general budget can come from a wide range of budget lines depending from the policy under consideration. Given that often different policies are responsibility of different ministries, policy financing can also be at the discretion of each ministry. In this case, it is rather difficult to monitor LMPs as a whole and coordination of interventions across the ministries becomes a central issue to be addressed.

LMPs that fall under the ministry of labor and target the unemployed such as unemployment benefits, training and job brokerage are often financed through an employment fund where contributions are levied from employers and workers and expenditures are channeled through the employment services. This choice has the advantage of making clear what is spent for what while the fund assures that over spending cannot incur unless the government intervenes with fresh funds. It is also easier to monitor and evaluate single policies while employers and workers understand more precisely what the contributions are meant for.

However, a fund type of management is vulnerable to crises when enterprises contributions forcibly diminish while expenditure needs increasing due to the rising number of unemployed. A system that prefers fund management to budget allocations needs therefore to have mechanisms in place that allow cost-saving, better targeting and generally a better use of resources in times of crisis. A system that uses most of fund resources for – say – administrative purposes is clearly more vulnerable of a system that employs resources more equitably between administration and ALMPs.

Users' fees are a possible way of financing or contributing to finance education and training schemes. These are more indicated for employed workers who intend to undergo retraining in order to change profession or job. In this case, workers can normally afford the fees and may be willing to contribute. On the contrary, users' fees for training provided to the unemployed should be discouraged given that by definition the unemployed have no income and that the majority would be unwilling to pay. A different case may be that of retrenched workers where former enterprises may be willing to contribute to the users' fees to facilitate workers dismissal. Workers also dispose of either severance pay or lump sums paid at the end of the contract and may be willing to invest in some re-training to increase their chances to find alternative employment

IV. DISCUSSION ON SELECTED LMPS[4]

LMPs are often classified into groups of policies according to different criteria such as the type of beneficiaries, the purpose of the policies or the instruments used. Traditionally, LMPs are classified as active or passive depending on whether they actively contribute to put people back into work or not. Passive LMPs (PLMPs) are typically unemployment benefits schemes while active LMPs (ALMPs) could be on the job and off the job training, self-employment and start-up business support such as micro-credit schemes. Other classifications may be demand LMPs and supply LMPs depending what side of the labor market is the main target, employment or unemployment policies depending on what group of individuals is targeted, macro and micro policies depending from the degree of LMPs' impact on the wider economy, ordinary or extraordinary policies depending of whether they are policies designed to be short or long-term. The choice of one classification over another should be determined by the need of emphasizing particular features of the particular labor market under study. For the purpose of this paper a classification between labor supply and labor demand policies is made.

Different LMPs or groups of LMPs may also be managed by different institutions and organizations. The ministry of labor may be the principle organization responsible for LMPs but it is by no means the only one. Ministries of industry, economy, education, finance, interior and more are often implicated in one way or another in the design or implementation of LMPs. Trade unions, employers organizations, NGOs, local administrations and village autonomous organizations are only some among other organizations which may be well involved in the design and implementation of LMPs. A LMPs country strategy needs very much a who does what preliminary assessment in

4. The discussion on unemployment benefits falls under social insurance while the reader is reminded to the child protection section for issues concerning child labor.

order to assure that implementation and division of responsibility issues are addressed from the start.

A word of caution may also be spent about what LMPs can really do. Employment growth worldwide and historically is principally determined by output growth. If well managed, LMPs can facilitate the process of employment generation and even contribute to growth through human capital formation but they should not be seen as a replacement for growth policies. The scope and capabilities of LMPs are limited. Reviews of LMPs in OECD countries, transitional economies or developing economies almost always conclude that the evidence is mixed with good results for some policies in some places and bad for others elsewhere. Overall, there seems to be no conclusive evidence that LMPs alone reduce unemployment permanently or increase employment substantially by creating new long-term jobs.

LMPs are more seen and accepted by governments as an effective way to facilitating matching, especially in highly segmented labor markets, as a way of providing some form of assistance to the unemployed in need and as a form of social protection as discussed in previous sections. Job brokerage and training can contribute to matching the unemployed with vacancies while micro-credits and other measures aimed at assisting the self-employed can be affective in creating new jobs. However, the overall effect on the economy is usually marginal. Therefore, it is important to have the correct expectations towards LMPs and invest in monitoring and evaluation especially for new experimental measures in order to keep possible waste of resources to a minimum. The establishment of costly system such as the employment services network should be carefully reviewed before introduction.

In the next section, a number of selected LMPs will be discussed. Far from being exhaustive, the range of policies examined may be considered as an initial LMPs ‘portfolio’ available to policy makers. There is also a large number of macroeconomic policies that have great effects on labor markets such as demographic, education, industrial, tax, price and trade policies. In fact, almost any economic policy has repercussions on the labor market. The discussion offered below should be understood as an introduction to some of the important LMPs issues that may be relevant to Asian economies today.

A. **Labor Legislation**

Labor legislation represents the institutional setting that paves the way for LMPs. It is a vast area where the ILO and other international organizations have played an important role over the post-war years. This is an area which is responsibility of lawmakers, but which involves a large number of contributors from the drafting process to the implementation phase. Trade unions, employers associations, various ministries or inter-ministerial bodies, parliamentary committees, international organizations, NGOs and others can all have a say in labor legislation at some stage. This is what makes labor legislation such a lengthy and difficult process for many countries.

Three important aspects to be addressed in labor legislation are the actual intention of the legislator, dissemination of information and implementation and enforcement.

Concerning the *intention of the legislator*, legislation can be looked at in two ways: As enabling or legalizing specified actions and practices; or as disabling or outlawing specified actions and practices. The distinction is important. In some countries the lack of legislation covering particular practices may mean that they are effectively illegal. Legislation may be required to authorize them. This is especially relevant in countries in transition to market economies although it is not limited to them[5]. On the other hand, legislation may be necessary to outlaw activities commonly regarded as undesirable, but still widely practiced. One example is child labor, which is difficult enough to prevent even with appropriate legislation but may be impossible otherwise.

The role of the legislator also needs to be carefully considered. Government agencies usually have a vested interest especially in labor legislation requirements. Legislation may have as much to do with protecting, promoting or expanding a particular government agency as it does with ensuring the well being of the labor market.

The dissemination of *information* concerning labor legislation is also important. It is too often assumed that by legislating a particular issue the problem is solved. Once legislation is passed, legislators move on to other issues and those responsible for implementation are not given the means or the power to implement the legislation. Very few employers or workers follow closely labor

5. Until recently in Korea, for example, there was little legislation covering the hiring of workers through worker-leasing companies (companies hiring out temporary workers). Such companies did exist but, in practice, their activities were constrained by the Ministry of Labor, which took the view that the lack of legislation meant that the companies were not authorized to move into certain industries and occupations.

legislation in developing countries and compliancy can hardly be let to individual initiative. The first task of the implementing agency is therefore to make sure that both employers and workers are well informed about legislation. This can be done through trade unions and employers organizations while checking mechanisms should be in place to make sure that people are effectively informed and understand the meaning of the legislation. To this end, legislation should be clear and use a simple vocabulary understandable by most.

The issue of implementation and *enforcement* is perhaps the most complex. Most employers think at legislation as an impeding rather than a facilitating mechanism. It takes time to read, understand, apply and is often costly. Therefore, traditional employer-workers relations tend to continue until there is a clear threat of penalty. Hence, implementation cannot possibly rely on individuals' initiative but has to rely on an effective control mechanism. A labor standards' inspectorate is one solution to the problem but an active role on the part of trade unions and employers organizations is also important.

1. **Core Labor Standards**

The ILO identifies four core labor standards and regulates them with eight conventions that it calls 'fundamental conventions on labor standards'[6]. These core labor standards are the following:

(i) Freedom of association

(ii) The abolition of forced labor

(iii) Equality

(iv) The elimination of child labor

The core labor standards stem, first of all, from a human rights principle. Freedom of association and equality are recognized as fundamental human rights while forced and child labor are perceived as violations of basic human rights. The need for the conventions regulating labor standards emerged as a need to protect mainly workers from exploitation and discrimination.

While few would dispute the importance and necessity for the core labor standards, the achievement of such standards presents some important dilemmas for countries committed to comply. The application of such standards can have beneficial effects on the functioning of the labor market by strengthening social dialogue, increasing workers productivity, expanding the size of the

6. See www.ilo.org

labor force and encouraging children participation in schools. However, in the case of child labor for example, it is often found that the blunt abolition of child labor in the absence of additional households supporting mechanisms can have very negative consequences on the welfare of poor households. Child labor often emerges as a survival strategy rather than as a parental exploitation of children.

2. Industrial Relations Policies

By industrial relation policies it is meant legislation aimed at regulating relations between social partners in industry, i.e. government, enterprises and workers. These include legislation on the formation of employers' associations or trade unions, rules on tripartite negotiations, regulations on labor disputes and settlements or the establishment of labor courts.

Governments and employers are able to argue in times of growth that the benefits are being shared naturally with workers and that any claim for a greater share could even jeopardize that growth. In fact, a strong trade union movement may not be essential to achieving high growth while unions' position may well be more critical during times of crisis (Box 1). However, freedom of association cannot be taken to mean a lack of rules or guidelines for unions or a lack of control on how unions may operate. In some South-East Asian countries the easing of trade unions regulations has paved the way for the birth of a large number of small unions which substantially fragmented the trade union sector and impoverished its capacity to operate on a national scale and contribute to the tripartite dialogue.

Freedom of association of employers also needs to be considered. It is impossible to avoid all connections between political parties and unions or employers. Nor it is even necessary to do so. However, problems arise when the government is entwined with either employers or unions. There are two interesting examples outside Asia. In Egypt, each employer association is subject to oversight by the ministry with responsibility for the relevant industry. The independence of the two bodies is thus compromised. In South Africa, it is the union movement that is entwined with the government. In this case, restrictive labor legislation is being developed which will inevitably lead to some form of labor market rigidity.

The experience of East Asia during the financial crisis showed that freedom of association is a desirable core standard but that it needs to be interpreted in a practical way. Collective bargaining must take place in a constructive manner, which is impossible if unions or employers are themselves poorly organized. There needs to be a distinction between the role of unions and employers in industrial negotiations and their roles and associations with governments or political parties in general.

Box. 1. In Korea, trade unions were not especially powerful during many years of economic growth. Legislation governing their activities has now been loosened and their attitude was important during 1997/1998 when economic restructuring rather than growth was the focus of government policy. Unions were asked to share in making decisions on industry restructuring, decisions that lead, at least in the short term, to considerable difficulties for their members. Similarly, in Indonesia until around 1997 there was only one recognized trade union. As the political reforms engendered by the financial crisis gave rise to an explosion in the number of political parties, so, too, the rules for establishing and recognizing unions were eased dramatically.

3. Wage Determination

The primary consideration is probably the question of *minimum wages*. While views on the advantages or disadvantages of minimum wages may differ, perceptions depend greatly on the circumstances of individual countries. The World Bank's 1995 World Development Report noted that the ratio of minimum wages to GNP per capita tended to be higher for poorer countries; almost as if governments try to legislate away poverty by insisting on wage levels that are not easily affordable. In part this is because they usually set minimum wages with reference to a minimum consumption basket. Yet, virtually by definition, average wages in poor countries (and certainly low level wages in those countries) cannot be that much higher, if at all, than the minimum consumption basket.

The 1995 WDR also observed that real minimum wages (particularly compared to average wages) tend to fall during periods of crisis. This has proved true in developing countries during periods of economic or financial crisis, and in countries in transition to market economies. It can also be said that minimum wages, like other pieces of labor legislation, are not especially enforceable.

Movements in the level of legislated minimum wages are sometimes used as an index for government transfers such as pensions or unemployment benefit. This sort of indexation imposes strictures on government policy during periods of difficulty and is one reason why minimum wages are allowed to fall during these times. The nexus between minimum wages and other government policies related to social security need to be understood and would normally require breaking[7].

Minimum wages could potentially contribute to poverty reduction, boost aggregate demand and improve productivity but this depends very much on the specific country context. In large informal and rural economies the wage sector is very small and minimum wage regulation affect a small share of the workers and, directly, few of the poor workers. The effect is rather to further restrict access to wage employment. The same argument can be applied for encouraging domestic demand. The effect would be marginal although lower paid workers use a larger share of income on consumption. It is more likely to observe an increase in productivity following an increase in low wages.

There is also a human rights argument that should be kept in mind. During deep recessions or in conditions of large excesses of labor supply such as during transition towards a market economy or transition from a rural to an industrialized economy, employers find themselves in a very strong position indeed. The experience in these cases is that employers can obtain labor at salaries as low as the value of one daily meal even if productivity criteria would allow for paying higher wages. That is because the alternative for workers may be starvation. In this case, the economic argument is much weakened by human rights considerations. It is obvious that minimum wage legislation can and should prevent such abuses but also that enforcement becomes the cornerstone of such policy. Without proper enforcement, the minimum wage would simply drive out of the market compliant employers with obvious repercussions on workers in the formal sector.

Overall, it remains difficult to fully appreciate the extent of the effect of minimum wage legislation in developing economies. The reasons may be sought among all other policies related to minimum wages. For instance, governments are generally unwilling to index minimum wages with inflation in fear of creating an inflationary spiral. In countries exposed to frequent and sudden price changes, minimum wages have very little effects unless tripartite agreements are negotiated very frequently or the work on minimum wages is demanded to a wage commission. Exchange rates

7. This is clearly evident in the FSU where such nexuses were well established during the Soviet Union and are still maintained by many of the successor states.

policies can have such important effects on global competitiveness so as to render irrelevant the effect of minimum wage policies on enterprises ability to compete abroad. The tax regime in any developing country is probably more important for multinational investors that the actual minimum wage.

In sum, while in an industrialized economy with large formal and wage sectors, stable prices and macro policies the minimum wage legislation may be very relevant for the well-being of enterprises, in developing countries dominated by large informal and non-wage sectors and subject to unstable prices and macro policies, the effect of minimum wage legislation may be much more limited and more difficult to asses.

The problem with the minimum wage is not the minimum wage itself but the fact that there is always a next-door enterprise prepared to ignore the legislation or a next-door country prepared to have a lower minimum wage or not having it at all. The argument is similar to the abolishment of slavery. Although, it has been argued that slavery ended for economic reasons (when slaves' productivity could no longer be improved) it is also true that slavery would have continued for a long period if legislation prohibiting it had not been passed and enforced. The fact that slavery disappeared without obvious consequences on profitability or growth shows that labor costs can well increase without necessarily damaging the economy. The problem is enforcement across the board of competitors and, in a global economy, global rules would be needed.

Other wage determination mechanisms include set ceilings to wage increases or mechanisms to index wages to inflation. One of the greatest concerns of trade unions is how to maintain the real value of wages. Employers worried about labor costs and governments worried about inflation find often themselves on the same side when it comes to wage increases in tripartite negotiations. Wages fully indexed to inflation generate an inflationary spiral not acceptable to governments and when indexation mechanisms are established they tend to be lower than inflation. Also, automatic wage increases do not take into consideration productivity levels and international competitivity. This is why some Asian countries such as Singapore dispose of a national wage board very much concerned about maintaining good levels of productivity and international competitivity. This is important for the long-term sustainability of production but clashes with workers' short-term interests.

On the other hand, better paid workers tend to be more productive and boost internal demand. Such understanding is what pushed the big automobile manufacturers such as Ford and Fiat in different times to increase workers pay above national standards. For Ford it was a question of how to improve workers' productivity beyond what the national average wage could offer, while for Fiat, in particular during the 1960s, it was a matter of how to build a car that its workers could afford. Boosting internal demand is important for all countries but countries with large populations and limited export may put more emphasis on this aspect than a country such as Singapore with a small population and high-tech export oriented production.

In conclusion, the balance between wage increase, productivity and competitivity is probably found in the determination of a proper share of enterprises' revenues between the state, employers and workers. This is done by carefully reviewing not only wages but also social contributions, taxes and employers' profits share. The final objective should be maximizing economic returns while minimizing income inequality.

4. Job Security Provisions

Legislation on job security provision includes legislation on recruitment and separations such as compulsory contractual clauses, rules on recruitment procedures, regulations on dismissals and unpaid leave, as well as legislation on job brokerage.

Legislation covering employee recruitment and separation requires employers to sign or, *de facto*, to recognize employment contracts that limit their ability to hire and fire. Labor market regulations in Europe and the USA highlight the differences of opinion there can be about the value of doing this.

In its simplest form, legislation on recruitment should prohibit discrimination and is therefore covered by core labor standards. However, the legality of other recruitment practices may not always be so clear. The civil service in many countries, for example, offers the most secure employment. Civil service regulations, though, may specify certain restrictions on recruitment or give preferential treatment to certain groups. Trade union restrictions may prevent enterprises from hiring people other than union members and it becomes a moot point whether labor legislation should be used to outlaw such practices or legalize them, or be silent.

Legislation may be used to prevent employers from treating employment contracts in a capricious manner. Employers may be required to sign formal employment contracts or to pay social insurance contributions on behalf of employees. Occupational health and safety legislation may require them to maintain adequate facilities. However, the cost of complying with employment contracts implicit in labor legislation may make it unattractive to be in the formal sector altogether. And not only may employers feel this way but employees as well. Both may prefer to negotiate their own wages and conditions irrespective of what the State may think.

Legislation on separations usually imposes costs on employers and is likely to generate rigidities, leading employers to avoid change and disruption, and eventually to decreased labor market mobility and flexibility. Nevertheless some legislation is usually warranted. Employers may be required to give a legal period of notice, to meet minimum severance conditions, or to negotiate large-scale retrenchments with unions and help displaced workers to recover their outstanding legal entitlements such as wage arrears.

Employees may have the right of appeal against dismissal. In some countries such as Indonesia, legislation has been particularly poor in this respect. Employers were not able to dismiss staff without approaching the Ministry of Manpower for approval. In the case of a disputed dismissal, the mechanisms for mediation and appeal had given rise to lengthy backlogs and employers finding alternatives (such as increased severance pay) to buy workers' agreement to voluntary separations. Some employers, as they did in Central Asia where there are huge wage arrears, also engaged in more dubious practices to force workers to quit voluntarily.

A number of countries impose restrictions on job brokerage. Some require all vacancies to be lodged with the public employment service (PES). Others prohibit private employment agencies or restrict their activities in various ways. Although some of these restrictions can be justified on the grounds of consumer protection (particularly where the consumer is an unemployed person), regulations on job brokerage, unlike legislation on working conditions, are not so defensible. The most common ways of hiring workers, in any country, are through newspapers, word or mouth or through contacts, and employers find ways to avoid restrictions imposed by governments.

ILO Conventions require countries to provide a free job brokerage service to workers. This can be interpreted to mean simply that an information service is in place, providing details of jobs known to the PES or that an advisory service provides career information to young people. In many OECD countries, the PES have grown large over the 25 years or so since the mid-1970s when unemployment increased significantly in most member states. PES are the vehicles for (a) administering systems of unemployment benefits or insurance; and (b) implementing labor market programs. Even so their record has not been unambiguously successful and one country, Australia, has now moved to privatize much of its PES while leaving only one public core structure, largely to implement the unemployment benefits system.

Exactly what sort of PES, if any, may be required, is therefore an open issue. There has been some attempt to establish and strengthen PES in Eastern Europe but whether the same thing is required in Asia is doubtful. Korea has a PES that seeks to emulate those of many of its OECD partners. Even under the financial crisis, Korea had sufficient strength to consider implementing labor market programs and would naturally saw the PES as the implementing agency. However, there is no reason to entrust labor market programs exclusively to the PES as various ministry may participate to a national plan or private providers may successfully operate in conjunction with public ones. In fact any institution or organization able to meet the set standards should be encouraged to offer services such as job brokerage, training or micro-credits. The role of the state is prevalently to monitor standards, fill the gaps left vacant by other providers and provide for those groups typically exposed to market failure such as the disabled.

5. **Working Conditions**

Working conditions cover issues such as:

(i) Occupational health and safety (OHS): This includes safety equipment and clothing, working in dangerous or onerous conditions, lighting and ventilation, and the general safety and protection in workplaces. Hand in hand with OHS go considerations of insurance against injury, that is workers compensation schemes;

(ii) Working hours: This includes maximum weekly hours, weekend work, piece-time, casual employees, part-time work, holiday periods, and breaks during work-time; and

(iii) Age limits on employment: This includes age limits on entry to work (a core labor standard) and age limits on retirement.

Each of these issues is difficult to cover in broad legislation. It is usual to set broad parameters for each in national legislation, with more detailed collective agreements between unions and employers covering individual industries and occupations.

Working conditions may be difficult to administer. Legislation must include the need for inspectors whose roles are as important as the legislation they are dealing with. Inspectorates are often understaffed, even in industrial countries, and may be ineffective. Inspectors may be underpaid and there is a risk of rent seeking (one reason why minimal legislation is desirable), leaving most of the “enforcement” to be done through collective agreement at workplace or at industry level.

Although OHS issues may be second-order compared to core labor standards, failure to address them can result in increased poverty for individuals who become unable to work or in increased social protection costs for governments, which are forced to provide safety nets to overcome deficiencies in OHS provisions. Unfortunately, part of the attraction of poor countries to investors (local or foreign) is not only the low wages but also the low overheads that go with it – low social insurance costs and the low cost associated with maintaining poor conditions of work. The fact that the true costs arising from poor working conditions is borne by individuals or by the government may not be a great concern to employers, or may even be viewed positively by them.

Improving OHS is arduous and can be subject to more frequent and more intense industrial disputes than wage disputes. Unions regard OHS as a major area of concern and the role they have played has done more to improve conditions than enforcement through legislation. The same is likely to be the case in Asia in the longer term.

Working hours are likewise second-order problems. Again, the attraction of low wage countries is, in effect, the low hourly wage being accepted by workers and workers accepting longer hours for a poor weekly wage. Legislation on working hours can make foreign workers, willing to forego the legislative benefits provided, more attractive to employers. Piecework may be unrestricted or supervision may be low or impossible. Homework, for example, is common among migrant workers (especially those who are illegal) even in industrialized nations. In South East Asia workers migrate from lower to higher income countries. Malaysia, for example, will continue to attract Indonesian workers, Thailand will attract workers from Cambodia.

Apart from standard weekly hours, legislation often includes details related to holiday periods such as setting minimum annual leave entitlements or additional benefits such as long service leave, maternity leave, sickness leave or penalty payments for weekend work. While these are legitimate workers' rights, the capacity of employers to pay these benefits must be taken into account.

B. Skills Development

Skills development is a national objective and priority for most countries. It stems from the economic theory that human capital contributes to growth as well as physical capital and that investment in human capital should lead to economic returns. In this respect, skills development should be part of the national economic plan and objectives in this area should be elaborated on the basis of labor projections by sector of economic activity.

Skills development is a vast area that stretches from early childhood to old age. Research has shown that the ability to learn is the result of heritage, social, health and educational factors that can be traced back as early as the first year of life. A poor science content in primary education, for instance, restricts students’ ability to learn technical subjects later on. Hence, every step in education and training throughout life is relevant for the skills' development of a nation.

Skills development can be broadly divided into two areas: Education and pre-employment training and employment re-training and skills upgrading. Traditionally, education and pre-employment training is responsibility of the ministry of education while employment re-training and skills upgrading falls more often under the responsibility of the ministry of labor with occasionally the ministries of education or industry.

1. Education and Pre-employment Training

Education and pre-employment training is probably the priority concern for most governments. Although this is an area of education policies largely under the responsibility of the ministry of education, it remains the fundamental basis for supplying good workers to the labor market. Yet, education is mainly perceived as the school for good citizens, the place where children learn about their country, history, culture and the world outside. It is the place where intergenerational knowledge transfer occurs. Course curricula are usually strongly influenced by political factors because education is perceived as the institution that eventually shapes political ideas. While these aspects of education are certainly the most important for nations worldwide, they overshadow the more practical function of supplying good workers to the labor market. Also, the divisional responsibility mentioned before between the ministry of labor and the ministry of education contributes to increase the fracture between formal education and the labor market.

In countries where the general education system reaches the overwhelming majority of the population and where average years of schooling is around ten years or more of education, the fracture between education and work is less of a problem. That is because people with tertiary education have normally good learning skills and capabilities and can be easily re-trained in different professions, while lower educated people need more time to be re-oriented or to access new professions. Hence, a proper objective for the general education system is normally to keep children as long as possible in education and to increase as much as possible the learning capabilities rather than the professional skills.

The drawback of such strategy in a developing country is the risk to create a pool of unemployed with tertiary education. Many Asian economies are facing such problem because the education systems have progressed faster than industry and new graduates simply don't want the jobs available in industry while services and the public sector are unable to absorb the totality of tertiary graduates. This is a problem that some developed nations such as Italy are confronted with because the tertiary education system has been traditionally open to everyone and free of charge. This encouraged many people to undertake university studies while the job market still required many more vocational and technical skills. Other countries, such as Germany, have instead built a more diversified educational system with many more options available to students in the vocational field and have kept a closer eye on the development in the labor market so as to re-orient the education system accordingly. Especially in an early stage of industrial development, the labor market applicability of skills learnt at school should be closely monitored.

Hence, a proper planning implies to find the right balance between educational output and labor market needs with an emphasis on flexible skills rather than over- specialized ones. The educational system in the Soviet Union was a typical example where the nature of the plan allowed making clear projections on professional skills needed and where education could be tailored accordingly. With the transition to a market economy, FSU countries faced enormous problems with large number of workers disposing of obsolete and highly specialized skills and low capacity to learn new skills.

Paradoxically, one of the best educational systems in the world for educational attainment found itself ill prepared for changes in labor demand. One of the lessons to be learned from this experience is precisely that the basic and compulsory educational system is better suited to train capable and flexible individuals with good learning abilities rather than over specialized technicians. Technical and professional skills should be more the responsibility of the employment training and skills upgrading system.

Box. 2. Thailand has long realized that its labor force is under skilled as compared to competing neighboring countries. The country now disposes of a large department dedicated to skills development under the Ministry of Labor rather than under the Ministry of Education. The department coordinates the activities of 62 training centers throughout the nations providing more than 100 different kinds of specializations. Currently, about 200,000 trainees are trained each year and approximately 81% of these find an occupation after training. Information on courses is provided to school students through the Ministry of Education. Financing of the courses is determined on a case-by-case basis depending on the capacity of the trainee and/or the sponsoring institution. Government budget, private institutions, grants and fees can all contribute to financing the courses.

2. Employment Re-training and Skills Upgrading

Economies in most developing countries are usually notable for the dominance of smaller enterprises, often in the informal sector, which are usually reluctant to undertake training except to meet the most immediate and limited needs. Even larger enterprises may be unwilling to commit themselves in establishing enterprise training centers of their own. Most employers complain about trained staff being “poached”.

Pre-employment training is therefore usually in urgent need of development. Existing workers need retraining or skills upgrading. Even though much of this should be the responsibility of industry, there are reasons for government assistance. Industries that are restructuring and changing (for example as a result of privatization) already have a substantial investment in their workers and in-service training offers a more effective and cheaper way of upgrading their workforce. Government intervention, however, should be geared to fostering greater industry expenditure rather than replacing private expenditure with public expenditure or creating infrastructures to manage the process. The reforms needed are essentially financial.

Studies into the reform of training systems usually concentrate on institutional issues and tend to ignore the financial changes that should be an integral part of reform. Many training systems argue that their main problem is a lack of resources: poor equipment, and inadequate training materials and supplies. This is often not the case and institutional reforms should normally be implemented before capital investments. The reforms should therefore have two aspects: Financial and institutional.

Financing should be designed to make systems more demand-driven and outcome-oriented and to develop greater pre-employment training in the economy. Reforms should focus not just on increasing the expenditure on training but on ensuring that existing expenditures are more effectively spent.

There are three main sources of funds to finance training:

(i) Government budgets: Typically through individual ministries. The most frequent case is where the ministry of education is the major supplier of technical and vocational education and training and budgets are provided through normal education funding.

(ii) User fees: Typically student fees or fees for employers on a fee-for-service basis.

(iii) Special funds: Often financed from payroll tax levies and used to finance post-employment training as well as pre-employment education. Ministries of Labor are often involved, if not in collection (which may be left to the tax collecting agency), at least in the disbursement of funds.

Many developing countries, or countries in transition to market economies, apparently suffer from inadequate financing of Technical and Vocational Education and Training (TVET). However, much of this can be traced back to the fact that they rely on direct employer contributions as their main source of finance. These are invariably inadequate, as avoidance by employers is high. Industrialized nations, on the other hand, can usually rely on significant employer contributions through the direct participation of employers in training, either apprenticeships or direct involvement in skills upgrading.

The imposition of training levies leads to the same problem as with any tax. Compliance is low and most likely to fall on those already undertaking training, such as larger enterprises and multi-nationals. Taiwan and China abandoned their schemes and Korea has changed them often. In Singapore the disbursements were lower than collections and the Malaysian scheme was unduly complicated. In OECD countries, such schemes have a lower place. There are no such schemes in Germany; and Australia, which flirted with a scheme in the mid 80s gave it up in the face of evidence that employers were undertaking more than enough training without being subject to a further government impost.

TVET undertaken in the education system is not necessarily financed in the same way as other education sectors such as higher general secondary schooling or higher education, even where they can all be considered to be post-compulsory education. Student fees are more likely to be charged in TVET than in other education sectors. Even so, the fees do not cover any more than a fraction of the real cost. TVET institutes are also more likely to undertake the sale of goods and services produced by them than other education institutes. However, there really seems little reason to distinguish the financing of education institutions on the basis of the type of course offered, and good reason not to distinguish. It would seem preferable to distinguish only on the basis of age; tying government funding to its obligation to provide compulsory education but leaving post-compulsory education open to a more diverse source of funding.

At least at the level of the post-compulsory education and training, the financing of institutes is also tied closely to the extent to which private providers are allowed to operate. Private providers in skill levels often concentrate on areas where lesser capital investment is required, such as secretarial skills, computer studies (especially at a lower level), and hospitality training (for example, hotel staff and restaurant waiters). More expensive training (such as electrical and automotive mechanics) is more likely to be financed predominantly by governments.

Even though all governments finance training to some extent this does not necessarily mean they also have to provide all the training. Some governments (for example, Sweden) allow non-government providers (private enterprise, and profit or non-profit NGOs) access to government funding, usually on a competitive basis (NGOs can include industry or worker associations). The government agency responsible for financing training should not also be responsible for delivering training. Delivery agencies should be asked to compete for government finance along with the non-government providers.

Institutional arrangements should be designed to establish a system of accreditation and standards for the vocational training system. While some may conclude that the priority for reforms is to upgrade classrooms, workshops, staff, equipment, materials and so on, this is not often the case. Rather, the priority is to ensure that training standards are relevant to the economy and that credentials are meaningful at a number of levels. Recognizing this, a number of countries are beginning to adopt qualifications frameworks that establish training standards based on occupational competencies agreed with industry. The frameworks include appropriate systems for assessment of training and for certification of skills attained.

Some care has to be taken with these developments. Countries like South Africa are adopting frameworks that are very comprehensive and complicated and it is doubtful if this sort of development is warranted. Cambodia is reforming its TVET system with the help of the ADB and is also contemplating the adoption of a formal qualifications framework. In theory, this may make sense but in practice other needs of the system are so much greater and a detailed and formal qualifications framework cannot really be afforded.

Nevertheless, reforms should be designed to establish a system of accreditation and training standards, especially for the pre-employment training. Strong industry involvement, even to the extent of domination by industry, is essential. Private training providers could also be invited to seek accreditation. Funding (say through support for students paying fees) might be dependent on private providers obtaining accreditation but they should not be coerced or forced by legislation to be accredited. Non-government providers generally fail or succeed on the basis of their outcomes and how they choose to operate is at their discretion.

The role of industry associations varies considerably from country to country. They are usually strong in developed countries, operating as the voice of one of the social partners and being parties to industrial agreements. In developing countries, their voice is frequently muted. In some cases, associations have been closely tied to political structures making their independence suspect and in others they are overseen by government ministries. The independence of the associations should be beyond question. Nevertheless, in most countries, industry associations have the potential for considerable strength and are at the forefront of reforms towards market economies.

Not surprisingly, the role of industry associations in TVET is strongest in countries that already have well established market economies. In countries such as Germany and France, employers' associations are active in setting standards, undertaking assessment of training, and providing certification. In many countries, they are active in setting standards through industry-specific tripartite mechanisms. Nevertheless, the emphasis on training remains with the larger companies and associations must work hard, along with government, to encourage training among small enterprises.

Government intervention may result in ad hoc structures being established. The most notable example is in the UK where the government has established a variety of bodies over a long period, various structures coming and going. Each of them was or is tripartite. Each was supported by government funding with strong bureaucratic involvement in their management. Other countries, such as Germany and France, also support the idea of using employers' associations as integral elements of any national training policy. Their role includes involvement as equal partners in national tripartite structures, and involvement as the dominant partner in developing standards, assessment and certification.

National Training Boards (NTBs) offer one mechanism for coordinating training although their emphasis is generally on training outside the education system. A tripartite board in particular offers the best way of maintaining cohesion between government agencies and industry in meeting labor market objectives, especially if it is seen more as an industry body than just as another government agency. NTBs are being proposed or developed in many countries. Malaysia has had a board known as the National Vocational Training Council since 1989 and there are now proposals to give it greater legal authority to coordinate training, bringing it closer in line to Singapore’s Vocational and Industrial Training Board.

H. **Labor Demand Policies**

By labor demand policies, it is meant those policies that target the enterprise with the specific purpose of protecting, encouraging and upgrading labor in enterprises.

1. Support to Enterprises

Support to enterprises should be understood as a family of policies aimed at reducing enterprise costs or increasing profits via non-market mechanisms, i.e. with government intervention. For example, an import tariff is a subsidy to local producers vis-à-vis foreign producers and so is a tax cut. Reductions in social contributions to be paid by enterprises may also be understood as a form of subsidy as well as a price policy that supports certain producers at the expenses of others. There are also other forms of subsidies meant to support the enterprise to achieve particular objectives such as cash subsidies for technological or skills upgrade or simply training offered free of charge. The European Union, for instance, supports enterprises in disadvantaged areas of the union with a large number of subsidies schemes aimed at boosting production and employment. In economies undergoing rapid structural changes, such as in transitional economies, subsidies may be channeled for restructuring of State Owned Enterprises (SOEs) or for encouraging the creation of new private businesses.

Subsidies to enterprises are perhaps the least popular means among analysts. They are generally accused of distorting the product market, favoring malpractice and misallocating resources. In effect, in an economy or in a product market well developed with a significant number of competitors and clear competition rules, the intervention of the state in favor of one producer or industry is obviously an unfair practice and an obstacle to growth.

Yet, in developing economies dominated by few domestic oligopolists or multinational monopolists and where anti-monopoly commissions are not in place or easily lobbied and where competition rules are sketchy or non-existent, the state may be called to protect some industries from unfair competition. This has been argued in the past in the so-called 'infant industry' literature. The argument is that a newly born manufacturer in a developing country cannot possibly survive the competition of a multinational giant unless some form of protection is granted by the state. This is an argument that received harsh critique, particularly during the eighties and early nineties but that still maintains a certain vitality in the light of the fact that all countries, including the United States, resort to protecting industries from foreign competition when a serious threat to local producers emerges. Even a low tax regime is in fact a state subsidy for domestic producers vis-à-vis foreign producers.

Infant industry argument apart, other cases may be suited for a reconsideration of state intervention. One of the important unresolved issues in transitional and developing countries is enterprises restructuring. Restructuring remains a problem for a variety of reasons including the fact that a viable financial system is not in place and because large and medium credits are simply not available for large and medium enterprises. In Central Asia as in Russia, banks charge interest rates that are far too high for local producers and banking is still a very cumbersome activity, highly risky and burdened with bureaucratic requirements. In other words, borrowing for most entrepreneurs is not an option. Foreign investors have been either disappointed by bad experiences or feared the unstable political climate. Bad or poorly skilled management has also contributed to obstacle reforms and enterprise restructuring creating the current impasse in production.

It seems that the role left vacant by the state with the transition has not been automatically filled by private institutions that *de facto* leaves to the state the burden of the consequences such as high unemployment and low budget revenues. The question is not so much whether state subsidies are good or bad in themselves but who benefits and what is done with them. In other words, the real urgent question is not about economics but about governance. The process of industrialization of post-war Europe, Japan and South Korea has been largely based on state subsidies and state run enterprises. What contributed to the successful development of these countries was a vision and an industrial strategy state driven. While anyone would recognize that private enterprises in a market economy with proper competition employ resources more efficiently, in a very early stage of development the state has still an important role to play to create the conditions for a market economy. In this sense, public enterprises' support become a form of public investments via private sector development.

2. Apprenticeship Programs

Apprenticeship programs are designed to bridge the gap between the educational system and employment. Employers prefer experienced workers and often find the cost of employing a new graduate too high. That is because, even when the salary remains low, social contributions have to be paid and the total cost of the worker remains high. Apprenticeship programs have proved effective tools to encourage enterprises to hire new graduates. However, the drawback is that schemes are often so convenient for enterprises that when the apprenticeship program is finished (periods from 3 to 24 months are usually covered by such schemes) employers dismiss the newly trained workers only to start with other trainees. This is often the case in countries such as Italy where social contributions are a heavy burden indeed and enterprises find apprenticeships programs as a way around high labor costs.

On the contrary, many Asian economies are less keen on apprenticeship programs because of the risk of 'poaching' once the training period is finished. In this case the problem relates to the scarcity of valuable skills rather than to high labor costs. Therefore the success of these programs is linked to the ‘fine tuning’ of state contributions. These should be just enough to fill the gap between what an enterprise would be willing to invest in a new untrained recruit anyway and the actual cost of such training.

3. Defensive Restructuring

In times of crisis, the enterprise is faced with the choice of shedding labor, hence shifting the burden of unemployment to the state, or undertaking a number of measures aimed at reducing costs without necessarily shedding labor. These measures can be called 'defensive restructuring' and include various forms such as work-sharing mechanisms, working time reductions, wage cuts and early retirement.

Work-sharing programs simply split a job place between two or more persons. This scheme is not very easy to implement because is difficult to coordinate different people on the same tasks or attribute responsibilities when problems emerge. For this reasons, enterprises don’t usually look at these schemes very favorably. However, assuming that the beneficiaries are willing to split salary and benefits, the scheme has the advantage of maintaining two people with the same capacities with the possibility of backing up each other or quickly expand production when needed. The scheme also suits categories with particular necessities such as mothers with children or people who need recurrent health care. It is in fact a form of part-time labor.

Reduction in working time allows enterprises to save on wages without shedding labor during economic downturns. The hope is that the crisis is temporary and that production will pick up again. In this case, it is less of a cost for the enterprise to keep labor on part-time than shedding labor first and than re-hire later. This attitude may be encouraged by the state by allowing companies to save temporarily on contributions other than wages. If the crisis persists and is limited to the enterprise, then such policy may turn against both the enterprise and the labor market and should therefore be discontinued.

Cuts in real wages tend to occur during crises by default rather than as a policy. That is because a crisis usually implies high inflation and wages are quickly eroded. The cases of Central Asia during the first half of the 1990s and the case of South East Asian economies during the last crisis are obvious examples of such process that contributed to maintain a relatively high level of employment during a major economic downturn. Such phenomenon allows enterprises to survive during economic slumps with relatively small social frictions given that inflation is usually understood and accepted as a common disease during a crisis.

Early retirement schemes are traditionally one of the most popular schemes for enterprises undergoing restructuring. This is a good exit route for both workers and firms but leaves the burden of pensions on the state. Especially in societies that are ageing very fast such practice can be very costly and clashes with policies aimed at increasing the retirement age for both men and women. It is up to the state to decide whether to encourage or discourage such practices and the decision will depend very much from the population structure and existing pension schemes.

C. Labor Supply Policies

By labor supply policies it is meant those policies aimed at targeting the working age population not fully employed and in need of an occupation.

1. Public works

Public works programs offer one means of providing assistance to the unemployed and other groups in need of an occupation. They are perhaps the programs the closest to social protection as the main objective is income maintenance. The key to their effectiveness is self-selection and effective self-targeting depends, in turn, on setting the conditions of the program, particularly the wage, such that only the most needy apply.

A scheme might have the following features:

(i) There would be no prescribed selection criteria, for example by directing the program to different age or gender groups. It is to be by self-selection. The wage determines the market response.

(ii) There should be an appropriate wage level. Setting an appropriate level for public works wages is clearly a key determinant of how the scheme operates. Wages should be set high enough for public works to be a better option (at least for some) than not working at all; but low enough not to attract any but those in real need. Since the budget for public works will certainly be limited, the wage needs to be set a level that brings the demand and supply more or less in balance. The basic idea is that public works is a "poverty-related" program. The key parameters to set the wage are the poverty level, the real level of minimum wages in the economy, the minimum consumption basket and the level of social assistance (i.e. cash assistance) provided to poor families.

(iii) Work should be additional to what already undertaken by the public and private sectors (in other words, the substitution effect should be minimized). This is difficult to achieve in any situation and is one good reason for having public works financed by a specific subsidy from the national budget.

(iv) The program should normally be administered at a regional level. Typically, the work would be low level, unskilled labor. Management groups might include NGOs for example (generally non-profit organizations) but not private employers.

Box. 3. The Maharashtra Employment Guarantee Scheme (MEGS) in India is perhaps the most renown public works program in Asia. The program had an impressive record in terms of numbers with 875 million person-days of work created in 1991 alone. The evaluation of such program has shown that the targeting was good with more than 70% of the beneficiaries below the poverty line and that it effectively contributed to contain the adverse consequences of draughts. One of the key elements of the success has been attributed to the fact that the wage rate had been set at a level below the minimum wage and that this, in turn, allowed for proper self-selection. The scheme had also visible effect on Indian infrastructure, particularly the irrigation system which has been an important factor for the consequent expansion of agricultural output. The scheme has more recently come under criticism as its records have been declining but it historically remains a major example of an effective public works scheme.[8]

8. Subbarao, k., Braithwaite, J. and Jalan, J. 'Protecting the Poor During Adjustment and Transition', World Bank, HCO Working Papers.

2. Micro-credits

Credit schemes for SMEs and self-employment are one of the most popular means to generate employment. The schemes arise from the necessity to support mainly small size activities with a loan otherwise inaccessible in the formal financial system. The non- accessibility to credits in the formal financial system may be due to different reasons such as non-existence of small credit schemes, non affordable interest rates, collateral requirements too severe, distances from urban areas where financial institutions are usually located, non trust from bank officials or banks' discrimination practices against categories such as women or the poor. Micro-credit schemes normally attempt to by-pass these obstacles by keeping minimal interest rates, relaxing collateral requirements, reach the poor where they live, mobilizing local savings and provide equal opportunities to all those in need.

Micro-credit experiences throughout the developing world are countless and vary a great deal in success. Grameen bank in Bangladesh is perhaps the most widely acclaimed system in Asia but there are many other examples. In Vietnam alone there are at least six different forms of micro-credits delivered under different institutions including the bank of the poor, the employment promotion fund, the cooperative alliance, the women association, trade unions and state banks. The purpose of all these credit schemes is employment generation and poverty alleviation but the means to achieve these objectives varies according to the type of beneficiaries.

Some of the characteristics of a good micro-credit scheme should be:

(i) Close to the beneficiaries. Many small branches are better than few big branches. Services must be available to people in their surroundings otherwise transport and information costs will discount the benefits of the scheme.

(ii) Designed so that collateral requirements are in reach of the target group. If the target group are the very poor with no available guarantees by definition collateral should minimal. Work can also substitute as a form of payback mechanism. Sometimes a bank of time can substitute for a credit scheme. The principle behind a bank of time is exchanging hours of work across different professions. This may be an alternative solution where cash is a scarce good.

(iii) Low interest rates, lower than commercial banks' interest rates. Micro-credits schemes should not compete with but complement the formal banking system. They should be designed to fill a gap existing for the poorest. Hence, interest rates have to be as low as possible. That is why cooperative or community forms of schemes tend to be the most popular. Successful micro-credit scheme sometimes evolve into proper banks and naturally start competing with bigger banks loosing their original function. While this could be a positive development and a sign of improved conditions, it can also create a vacuum for a real need of low interest credits. In this case, either a new scheme is set up or a restructuring of the scheme is needed.

(iv) Small and frequent repayments. This allows verifying customers' repayment abilities and possible problems early on so that the credit does not become difficult to manage for both the bank and the customer. Poor people tend to be less literate and have more difficulties in dealing with numbers and money. They are also often concerned and worried about not being able to meet the debt because they don't feel in control of the system. With small repayment there is a better opportunity to familiarize with the system and gain confidence.

(v) An internal control mechanism based on trust managed by members for the members. Micro-credits schemes for the poor are often community based. They rely on a close network of people who know each other with different level of trust. Therefore the best people to decide about responsibilities and tasks within the scheme are local communities who can design appropriate methods of control suited for local customs and traditions.

(vi) An external control mechanism based on financial criteria and managed by a supporting institution (the state, NGOs or multilateral donors). Credit schemes are often initiated and financed by donors. While one aim of these schemes is long-term sustainability and autonomy, a role for the donor could still be to assist the institution with an external control based on financial criteria. With time this function can be passed on to the beneficiaries but these often need a learning period and technical assistance should be phased out over a sufficiently long period.

Box. 4. The Grameen Bank of Bangladesh is probably the largest and most renowned experiment of micro-credits for the poor in Asia. Today, the Grameen bank counts 1,118 branches, reaches more than 38,000 villages, has almost 2.4 million members and has disbursed to date more than 2.5 million USD in credits[9]. The bank lends to individuals of self-constituted small groups and does not ask for collateral. Control is within the group. The scheme has been monitored and evaluated by several institutions and it has been shown that participants and villages where the Grameen bank is present regularly outperform non-participants and other villages in terms of income and welfare.

D. Labor Market Programs and Services

By labor market programs it is meant those programs that aim at facilitating labor market functioning by reducing mismatching and labor market rigidities and by increasing information and placements. Policies aimed at these objectives include job brokerage, labor information systems, training, housing programs for labor mobility, psychological support for the unemployed and others programs aimed at mobilizing the discouraged unemployed. These programs are usually managed by the employment services under the ministry of labor. Two areas of interventions are treated below: Job brokerage, and training programs for the unemployed[10].

1. Job Brokerage

Job brokerage is perhaps the most important function of employment services. Especially in economies with underdeveloped labor markets, where communications means are limited and where information is difficult to acquire, employment services can be the proper place where labor demand (vacancies) and labor supply (job seekers) in the wage sector meet.

Job brokerage includes a number of services tailored for job seekers and enterprises. Job seekers are assisted by first being registered and then with job offers and other offers such as training, psychological support, job clubs and other activities. If none of the activities lead to a job, job seekers are registered as unemployed and, if eligible, offered benefits. Enterprises, on the other hand, are offered the opportunity to advertise their vacancies at the employment services and when candidates that meet requirements are found, these are sent for interview to the enterprise.

9. www.grameen.org
10. The unemployment benefit system if treated under the social insurance section of this report.

Job brokerage is obviously a necessary and valuable function. However, there are a number of problems, which often emerge with employment services. First, the rules for registration as job seekers or as unemployed are determined by law and often quite strict. These usually include the possession of certain documents such as a residency permit, a workbook or pay-slips. Some among the most disadvantaged may not have the requirements and are the first to fall out of the system. Moving from job seeking to unemployment registration to entitlement for benefits increases the number of requirements such as not having refused job offers a certain number of times, not having refused training, not having been registered as unemployed during the previous six months or not fulfilling some income criteria. The result of these requirements is that among all those who approach the employment services for help, many fall out of the system by default. Usually, these people are the most disadvantaged and tend not to re-apply because the first experience has been disappointing.

Second, the number of the unemployed who actually approach employment services is usually small in developing countries. The reasons are several from excessive distances from employment services, transport costs, poor expectations, poor services provided or little unemployment benefits. Employment services often complain that they can't reach their customers.

Third, the number of enterprises who actually use the employment services to advertise vacancies is usually small. This is so even when advertising is compulsory. The reason seems to be that enterprises prefer to advertise vacancies on newspapers and elsewhere because they believe that employment services can only provide unemployed people with low skills and motivation. This is partly true but it is this kind of self-fulfilling prophecy that makes employment services inadequate. Enterprises don't trust employment services and, as a consequence, good workers know that employment services do not advertise good jobs and the labor market takes place outside employment services. This may not be a big handicap in well functioning labor markets where private employment agencies play a big role and where many newspapers and other means of communications have job sections. However, it is more of a problem in developing countries where the state is often the sole entity with the necessary resources to set up an effective job brokerage system. In this case, it is important that employment services gain the credibility they need to fulfill an existing need.

Services may be provided free to unemployed job seekers. Services to employers may be free of charge or may attract a fee depending on the service offered. The employment services, for example, may display vacancies for free but charge for screening applicants. Services may also be provided to employed job seekers (looking to upgrade their jobs), perhaps at a fee. Services may be provided through the employment services or be contracted out to private providers.

Job brokerage services are expensive to operate, more so if there is no cost recovery, and poorer countries need to consider carefully whether they are worth having. On the other hand, many countries are reluctant to let private agencies operate freely. They worry about job seekers being defrauded by private agencies; typically by advertising non-existent vacancies and then charging fees to conduct job searches; or by offering jobs tied to training courses that attract a course fee. Governments prefer, at least, to license private providers and sometimes refuse to let them operate at all.

Governments are usually more informed, at least quantitatively, about the labor market than most employers, workers or jobseekers[11]. They have access to data (from statistical collections or administrative data) that are not widely known. One of the most important services they can provide is to make this information widely available: through the employment services, through education institutions, and though publications and advertising.

2. **Training Programs for the Unemployed**

Training for the unemployed and from the employment services is usually offered after a period of job search. When job seekers approach the employment services, they are offered a vacancy list or a number of interviews with enterprises. If the job search does not come to a result during a certain period, the job seeker is offered some re-training opportunities. These can be training courses organized by the employment services but also training offered by other institutions, private and public, and paid for by the employment services or other budget sources.

The relevant issues about training provided by employment services are quality and relevance for the labor market. Quality is the first priority of any training course and as any other course this can only be guaranteed if a proper method of evaluation is in place. Relevance for the labor market

11. Although it as well to realize that the community is surprisingly well informed qualitatively; often better so than many analysts.

is obviously important but very often training courses turn out to be not very relevant. This is partly due to the fact that employment services grow to become big machines with heavy structures where curricula are fixed and reformed rarely. Training for trainers is under-financed and outsourcing training is expensive. The result is that the training offered is of little interest to both job seekers and enterprises. Nevertheless, governments often continue to maintain poor systems because it keeps the unemployed away from the unemployment roster and because they can always be justified on an employment assistance basis. A typical attitude is to think that any training is good because keeps people busy and mentally active. While this may be true, a good training course is the one capable of responding to a real demand requirement serving best both employers and workers.

The private sector can also contribute effectively to the training of the unemployed. There is a clear interest, at least in certain economic branches, to train technicians in scarce supply and many industries may be willing to contribute to the training process. This is useful not only from a financial perspective but also from a labor market perspective. Enterprises are in the best position to evaluate what skills are needed and when and the commitment to finance training is a guarantee that the acquired skills will lead to a permanent job.

Box. 5. One example of a social partnership for training is the **Penang Skill Development Centre (Malaysia)** for the electronics industry, which is based on a partnership between the State, private enterprises and academia. The Centre was established by multinational enterprises and the Penang State Government and is managed as a business by a management council composed of public and private sector representatives. The State provides cash grants, trainers, equipment, training materials and premises. The private sector supplies financing, equipment and trainers. The Centre is used both by the Government and the private sector. There are user fees for courses and membership fees[12].

E. **Labor Migration**

Given the relative disadvantages suffered by rural areas in most Asian countries, such as lack of work opportunities and higher levels of poverty, labor migration already plays an important role in the development of Asian labor markets.

There are two aspects to labor migration:

12. Taken from Mitchel, A. G. (1998) 'Strategic Training Partnership between the State and Enterprises', ILO, Employment and Training Papers No. 19

(i) Internal migration, predominantly from rural to urban areas

(ii) External migration, both to and from foreign countries.

In both cases, the reasons for the migration are similar. Broadly speaking, workers migrate mainly because there is no work where they are – a simple and obvious enough reason. Other, secondary causes for migration especially among the poor and the unskilled include:

(iii) Landlessness, which is a major reason for the migration of rural workers;

(iv) seasonal opportunity, especially in areas that produce only one major crop a year;

(v) the inability of villages in rural areas to generate income in their immediate vicinity;

(vi) higher wage rates elsewhere (wages in Thailand, for example, are about twice the rate for comparable work in Cambodia); and

(vii) potential migrants being inspired by the financial gains made by earlier migrant workers.

Workers who are more skilled (graduates, for example, or technicians and skilled crafts workers) are more likely to seek long-term or even permanent migration and will continue to do so as long as the opportunities in their national labor markets offer inadequate opportunities.

1. **Internal Migration**

The main reasons for internal migration from rural to urban areas are clear. Migrants may be:

(i) in search of employment

(ii) displaced

(iii) moving because of marriage

(iv) transferring their work place

(v) avoiding natural calamities or seeking greater physical security; or

(vi) improving their educational opportunities

Bearing in mind the risks associated with illegal external migration, it is reasonable to assume that internal – and long-term or permanent – migration to the city will be the favored movement for most migrants. Seasonal movement, based around an annual agricultural cycle, may also become a significant feature of internal migration to urban areas generally as it has been the case in China, even though the costs and distances may be significant. Urban-rural migration is less common but frequent in times of crisis such as during the transition in Central Asia or during the financial crisis in

South-East Asia. In these cases, migrants move in search of subsistence activities, self-employment and generally lower living costs.

The proportion of people who migrate is likely to be younger than the population in general. The age structure of the labor force in the cities is therefore also likely to be younger, bringing with it its own problems. This can be expected to continue, with the inverse impact on the rest of the country. Internal migration, at least in the short-term, may well have an impact not only on the respective growth rates of urban and rural areas but also on their demographic structures.

The government attitude towards internal migration can either be in terms of encouraging or discouraging such flows. When regional mismatch exists governments should support migration flows with housing policies and other policies aimed at facilitating the insertion of workers and their families in the new working environment. Enterprises are usually unable to sustain housing and relocation costs and when a supporting government policy is missing collateral phenomena develop such as shantytowns and ghettos for migrant labor.

These typically urban developments visible across Asian cities become in the long run a substantial cost for governments in terms of rise in criminality, low schooling and generally poor human development. As a response to such phenomena, governments may turn to try to discourage rural-urban migration by emphasizing regional and rural development. However, development in rural areas is a lengthy process and the attraction of large metropolis for rural labor has proved to be a very strong force difficult to stop or even slow down. Therefore, while long-term policies may focus on rural development, short-term policies have to necessarily address urban settlements and infrastructure problems.

2. **External Migration**

External migration can be significant for some countries. It has been estimated, for example, that Cambodians working in Thailand represent the fourth sector in terms of employees after agriculture, retail and wholesale trade, and public administration and defense. Most of this initiated as refugees fleeing Cambodia in earlier years but the rationale now is almost exclusively economic. Cambodians living in areas neighboring Thailand have simply resorted to selling their labor at a better price outside the country.

There can be significant start-up costs for external migrants, with higher costs incurred for workers seeking to go further rather than engage in only near-border movements. Migrants may have to borrow money to finance their migration or sell assets for the same purpose, especially for long-range migration. Naturally, the costs can be higher for illegal migration. The lower cost of near-border migration therefore tends to attract the very poor. The near-border Cambodian migrants, for example, are more inclined to undertake seasonal work and work at day-rates in agricultural occupations. Long-range migrants undertake work in fields such as construction or in manufacturing and food processing. One way or another, the considerable majority of the work taken up is unskilled daily work.

External migration is also subject to significant risks when it is illegal. The widely reported movement of illegal Asian migrants to Europe, North America and Australia demonstrate just how risky it can be. There are also risks associated with the movement of migrants to adjoining countries mostly in terms of harassment and exploitation. Expatriate workers are more likely to be paid less than they are owed, do not benefit of any form of social protection and they are less likely to be assisted by the local judiciary system. Vulnerability for migrant workers also increases as a result of abandoning the place of origin for a certain length of time. For example, workers who returned to Cambodia as a result of the Asian financial crisis in Thailand could find themselves landless or short of assets, or in substantial debt.

As a result of such precarious situations, countries that rely extensively on foreign remittances such as the Philippines have equipped themselves with social protection mechanisms for migrant labor that function mainly through public bodies or certified private organizations. These mechanisms can take various forms such as providing legal assistance in case of labor disputes, facilitating migration by means of welcoming organizations in charge of helping migrants with housing, work or other administrative consultations or establishing compensation schemes for pension and other social contributions. These organizations emerged partly as a response to open human rights violations and partly as an institutional support to large migration flows determined by economic reasons. They usually operate through the local embassies and are likely to be encouraged by host countries because they facilitate the control and regulation of immigration as well as offering a valuable interlocutor for any sort of problem that may emerge in relation to migrant workers.

External migration may be a significant source of foreign income. Migrants from South Asia and the Philippines are a noteworthy part of the labor force in Saudi Arabia and the Gulf States. In particular, they have taken jobs from Egyptians who used to be the major expatriate workforce in those countries, so much so that Egyptian government policy is to recapture what they tend to regard as part of their natural labor market. Countries such as Indonesia and the Philippines have also official policies to foster the placement of their workers, especially their skilled workers, overseas while other policies restrict the immigration of labor. In some cases, though, the latter restrictions should be more properly regarded as a source of revenue for labor departments.

Finally, labor migration has important implications for the size and composition of the local labor force. For some countries such as Indonesia and the Philippines, emigration tends to be low skilled and governments tend to see the phenomenon positively and even encourage it. For other countries such as India emigration turned out to be an important brain drain with high skilled workers fleeing to wealthier countries. This is the case for example of high skilled workers in the software industry. India is currently able to produce a great number of technicians in this area and the rising global demand for these skills has encouraged a massive emigration of this type of workers with obvious negative consequences for the local labor force. In the past, India has experienced a similar emigration in sectors such as health with doctors and nurses migrating abroad and this phenomenon has proved to be permanent rather than temporary. Moreover, it is usually the younger that migrate affecting the intergenerational composition of the labor force.

V. SUMMARY OF KEY ISSUES

The paper offered an overview of issues related to labor market policies when these are considered in a social protection context. A number of key issues are worth summarizing:

(i) The global experience in managing labor markets is rather diverse and stems from fundamentally different conceptual approaches. These approaches are exemplified in the simple categorization of the Japanese, European and American models. The Asia experience has been mostly influenced by the Japanese and the European models, although a process of deep changes is occurring after the crises experienced during the 1990s.

(ii) Irrespective of the model driving approaches to labor market management, an important consideration when dealing with labor markets in developing countries is their segmentation along different lines. LMPs, while they should facilitate a reduction in such segmentation, they should also pragmatically address segment specificities such as those found in the rural or in the informal sectors.

(iii) A labor market strategy aimed at contributing to social protection needs a reorientation from its natural objective of improving labor market flexibility and human capital towards a more comprehensive approach. Targeting has to be reconsidered in the light of social protection groups not traditionally targeted by LMPs. Organizations responsible for LMPs, such as the ministry of labor, need to be equipped with adequate skills able to manage the new target groups. Financial resources need to be secured to serve the social protection cause in the long term while a financial restructuring plan for LMPs in times of crisis should be always in place.

(iv) Labor legislation can typically be either too much or too little. Not every aspect of labor needs to be regulated while some aspects of labor, particularly in the human rights sphere, are in urgent need of regulation.

(v) Core labor standards are regulated by ILO conventions and countries wishing to subscribe them can easily sign the proper international conventions. The difficult issue in this case is not legislation but implementation.

(vi) The minimum wage, while it can appear as an important measure for social protection, can obtain the opposite effect by pushing employers in the gray economy or restricting employment further for the very poor. Yet, where conditions for open labor exploitation exist, such as in the case of migrant labor or during protracted crises, the minimum wage, if effectively enforced, remains an important instrument for governments committed to social protection.

(vii) The fracture existing in most developing countries between the educational system and the labor market needs to be addressed by developing a proper system of vocational education easily accessible, relatively inexpensive for the most and relevant for labor demand needs. While the state has the important role of designing a strategy in this area, enterprises have to be heavily involved in the identification process of labor demand needs.

(viii) State support to economic sectors or particular enterprises (credits at favorable interest rates, tax cuts, tariffs on imports) should not be excluded a priori but it should be evaluated in the light of the type and quality of the beneficiaries and actual conditions in which they operate. At times, social protection may mean protection of the local industry from unfair foreign competition. In an early stage of development, the state remains one of the very few organizations able to undertake important investments. The state's role in supporting the economy with public investments can only decline with the growth of a competitive private sector.

(ix) Public works and micro credits are perhaps the LMPs that best suit social protection. These policies are self-selecting and usually open to anyone in need if well designed. Experience in these fields is vast and the record worldwide is rather positive. Public works are also fairly straightforward to implement and do not require lengthy planning while they can be discontinued quickly when no longer relevant. Micro credits are one effective way to mobilize local resources where a financial system is not in place or not in reach.

(x) Labor exchanges are important instruments to monitor the labor market and assist the unemployed. Job brokerage is the primary function of labor exchanges and one that needs to be provided by the state in poorly developed labor markets where private intermediation is either non-existent or of an exploitative nature. In the optic of a social protection strategy, labor exchanges could become the focus point for such strategy, the door for the vulnerable to reach the state for assistance.

(xi) Labor migration is perhaps the most significant phenomenon in Asia today and one that is often overlooked by LMPs. Yet, migrants are among the most vulnerable groups in society because they usually lack the basic family support mechanisms, legal status or protection of any kind. Some countries are equipping themselves with mechanisms to assist citizens who migrate abroad for work but a lot rest to be done in the field of labor protection for immigrants. Also, internal labor migration, which occurs in response to labor unbalances and is therefore beneficial for the economy as a whole, needs to be assisted with adequate schemes such as housing and transport schemes targeted for the job seekers.