

Young Asians: A squandered talent

Introduction

The number of developing Asia's workers has risen steeply in recent years as a tide of young people has entered the labor force. The trend has been most prominent in northeast Asia—comprising People's Republic of China (PRC); Hong Kong, China; Republic of Korea; and Mongolia—where the proportion of the labor force to the total population is expected to peak at 72% in 2010, up from 57% in the 1970s (UN ESCAP 2007). The high share of young people in the total population—also known as the “youth bulge”—provides a unique opportunity for enhanced long-run growth or the “demographic dividend.”¹ The dividend can occur in two phases: first, when young people are productively employed, they can lift *per capita* income; second, as they grow older, accumulate assets, and invest, they can generate higher *national* income (IMF 2006). If young workers embody higher skills and knowledge levels as a consequence of earlier investments in human capital, this will boost productivity too.

However, an economy has to redeem its demographic dividend within the short time span of a single generation, and doing this is by no means automatic. It depends on the policy environment and on institutions (Bloom et al. 2006). If these enabling factors are not in place, the demographic dividend can turn out to be a demographic curse. But when enabling factors are present, favorable demography can exert significant leverage on growth. Indeed, the remarkable growth performance of East and Southeast Asia owes much to the successful exploitation of this dividend (Bloom and Canning 2004). In accounting terms, two fifths of the actual growth in output per effective consumer can be traced to favorable demographic shifts in East and Southeast Asia (IMF 2006). But other regions, such as Latin America, have largely wasted their demographic dividend. Weak governance, inward-looking policies, and macroeconomic instability there curbed the investment and growth the young could have produced.

The youth bulge will begin to shrink in Asia as a whole around 2010,

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and by 2040 the share of young people in the total population will be about 14%, down from 20% in 2005 (UN 2007). Before the bulge begins to disappear, and the rising dependency of the nonproductive youth and elderly populations on young people checks per capita income growth, it is vital that economies create productive and sustainable jobs for the young. Failure to do this will not only crimp growth now, it will also undermine an economy's ability to support a larger dependent population in the future. Other stresses are also likely to break through. If the young find that they have few economic opportunities and little to look forward to, this is likely to aggravate social problems and could undercut political support for reform programs (Box 2.1.1).

The importance of youth employment in the developing world has been brought into prominence in recent years by, among others, the International Labour Organization and the World Bank (see, for example, ILO 2008 and World Bank 2006a). These studies have taken a broad and largely aggregate view across countries. The contribution of this chapter of *Asian Development Outlook 2008* is to provide a micro-level perspective

2.1.1 Youth unemployment, employment, and poverty in Asia

Young people form a quarter of the working age population but more than half the unemployed on the planet. The Asia-Pacific region hosts almost half the latter group. Globally, unemployment among young people rose between 1996 and 2006 but its distribution was uneven (Box figure 1). The impact was most dramatic in Southeast Asia, which was hit hard by the financial crisis of 1997–98. Young men and women were equally affected.

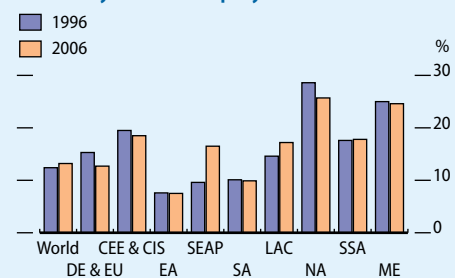
In developing Asia as a whole, only about 60% of young men and 40% of young women are employed. A large proportion of them face poor working conditions in informal and insecure jobs, and although \$1-a-day poverty among employed young people has declined across the world, it remains high in South Asia at 37%, compared with the world average of 22.7% in 2005 (Box figure 2).

The economic consequences of youth unemployment may not just be limited to the individuals concerned but extend to the economy at large.

Among individuals, long-term unemployment can lead to chronic poverty and result in intergenerational transmission of the scourge. At the aggregate economy level, this can result in loss of productivity and growth. Those who cannot find a job to their satisfaction may be discouraged from actively looking for work, and the longer the period of unemployment, the higher the loss of knowledge, skills, and future productive capacity.

Long-term unemployment may also deter young people from forming families; may generate frustration, low self-esteem, and other psychological problems; may make them vulnerable to drugs, disease, and crime; and, potentially, could cause social unrest.

1 World youth unemployment rates



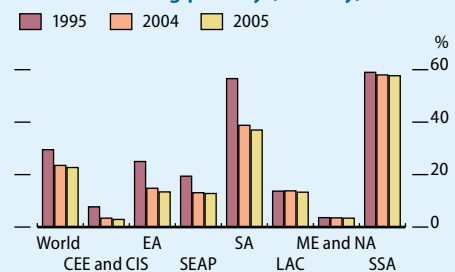
CEE & CIS = Central and eastern Europe (non-EU) and Commonwealth of Independent States; DE & EU = Developed Economies and European Union; EA = East Asia; LAC = Latin America and the Caribbean; ME = Middle East; NA = North Africa; SA = South Asia; SEAP = Southeast Asia and the Pacific; SSA = Sub-Saharan Africa.

Note: Regional groupings for both figures follow the definition of the International Labour Organization, available: <http://www.ilo.org>.

Source: International Labour Office. 2007.

[Click here for figure data](#)

2 Youth working poverty (\$1 a day)



Source: International Labour Office. 2006.

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on issues, set in particular country contexts. The analysis provides new estimates of the dimensions of youth employment and unemployment in India, Indonesia, Philippines, and Thailand, and traces their evolution over the last decade.

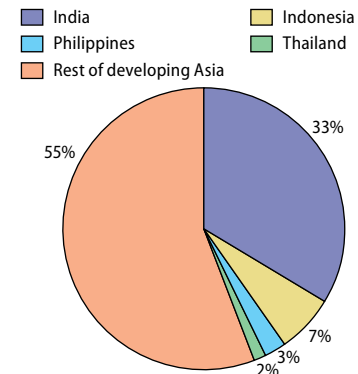
Together these four countries account for close to half the young population in developing Asia—33% from India, and 12% from Indonesia, Philippines, and Thailand combined (Figure 2.1.1). While capturing some of the diversity in country demography, experiences, and circumstances that exist in developing Asia, all these countries face the imminent prospect of a declining share of young people in their population (Figure 2.1.2). The descent has already begun and the opportunity to redeem the dividend will soon be moving to a close in Indonesia and Thailand. The opportunity is expected to peak at around 2010 in the other two countries.

The rest of this chapter is structured as follows. The economic context of the perspective is presented in section 2, *Country context*. The following two sections present a statistical analysis of the situation of young people. In section 3, *Work and joblessness*, several labor market outcome indicators are estimated, including jobless rates, waiting time in the job market, and the opportunity cost of job search. The analysis shows that young people are disadvantaged vis-à-vis adults, and young women are disadvantaged relative to young men. In the past decade, unemployment and jobless rates among young people have increased in all the four countries. The opportunity cost in terms of loss of earnings while searching for a job has increased over time, reflecting a more difficult job market for young people. These are worrying trends. Moreover, weaker and marginalized sections of young populations are being left behind. In particular, those with low levels of education are most at risk.

Section 4, *Structure and quality of employment*, looks at the conditions of those who have found employment. Agriculture—characterized by low productivity—has emerged as the employer of last resort for the young, especially teenagers. Opportunities for young people are rapidly growing in services and, to a lesser extent, in manufacturing. Encouragingly, employment has become more formalized, particularly for young workers. At the same time, however, poor and uneducated young people are being pushed more into low-end manufacturing and services jobs in the informal sector. It would seem that young workers, and particularly young women, have borne the brunt of the structural change since the 1990s. The young also continue to stay disproportionately behind adults in earnings.

Section 5, *Policy conclusions*, discusses possible avenues for addressing the market and institutional failures identified above that bedevil labor markets for young people. The current emphasis on boosting the quality of labor supply for higher-end and mid-level jobs is important (see the chapter *Asia's skills crisis*). But the need for policies to improve the prospects of the large numbers of young people struggling in the job market is stronger than ever. More flexible regulatory frameworks; suitable education, skills training, and counseling; and public-private partnerships would enhance the opportunities for underprivileged new job seekers.

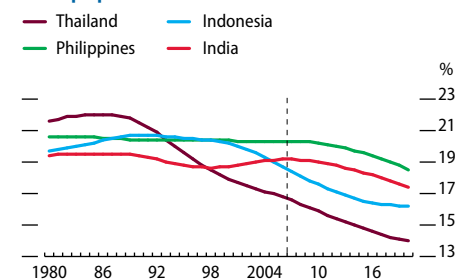
2.1.1 Total youth population aged 15–24



Source: International Labour Organization, *Key Indicators of the Labour Market (KILM)* database (5th edition), available: <http://www.ilo.org>, downloaded 9 January 2008.

[Click here for figure data](#)

2.1.2 Youth population as a share of the total population



Source: International Labour Organization, *Labour Statistics Database*, available: <http://laborsta.ilo.org>, downloaded 9 January 2008.

[Click here for figure data](#)

Country context

Although the general rule holds, that creating jobs for young people requires sustained economic growth, the experiences of India, Indonesia, Philippines, and Thailand are divergent with regard to the education system itself.

Viewing the countries in economic terms, it is well known that India has emerged from several decades of “lost growth” after independence to become one of the world’s strongest-growing economies. A high investment rate, exceeding 38% of GDP in 2007, augurs well for continued expansion. The 11th Five-Year Plan focuses on “inclusive growth” for a wider distribution of its benefits.

Of the three Southeast Asian countries, Indonesia and Thailand (the most directly affected by the financial crisis) have moved to lower growth trajectories and have endured permanent losses in income. They have also suffered huge changes in economic structure: industrialization, for example, has gone into reverse; industrial labor productivity has been virtually stagnant since the crisis; and national unemployment rates (i.e., the share of the unemployed in the labor force) have moved and stayed higher. In Indonesia, growth has slowed to an average of 4.9% in 2001–2006 compared with 7.8% a decade earlier. Investment has seen some recovery in recent years in Indonesia, standing at 23.2% of GDP in 2007, but its effects are yet to be felt.

Thailand’s postcrisis growth has slowed markedly both relative to precrisis rates and to longer-run trends. Its investment rates tumbled following the crisis and are only now beginning to climb again, having reached 26.8% in 2007. Nevertheless, growth is once more expanding and, despite political disturbances, Thailand has maintained its status as a middle-income country.

The Philippines has had a much weaker growth record than either Indonesia or Thailand but was comparatively sheltered from the crisis. In recent years, its growth performance has strengthened, but investment rates remain very low, at 14.7% in 2007. Growth and investment are increasingly concentrated in non-labor-intensive services, and there is little evidence of growth of a dynamic industry sector.

In addition to a favorable economic climate, strengthening the job outcomes for young people requires improvements in education systems, since they have such a critical influence on employment skills and hence employment. In the short run, higher education and high-quality education improve the immediate job prospects of young people. A better educated and more skilled workforce promotes long-run economic growth and the general employment prospects of young people.

In this regard, Indonesia and Thailand are performing relatively well, in a context of rising education enrollment. The Philippines, though, is less fortunate, as it has a serious problem of school dropouts, particularly in rural areas (World Bank 2003). Moreover, its elementary school participation fell from 97% to 84% between 1999/2000 and 2005/06, following the reduction of education spending as a share of GDP from 4% to 2.4% during 1998–2005 (World Bank 2007a). India, too, is struggling educationally: although 40% of its population is under 18, 25% of its young workers are illiterate and 30% have incomplete elementary education. Government schools—the mainstay of education for poor

children—suffer from a shortfall in buildings and education materials, lack of accountability, and widespread teacher absenteeism. One result is that in nine Indian states, more than 30% of village children attend private schools, where teachers are more accountable (Pratham 2008).

Central government spending on education also varies widely among the four countries: it comes to only 4% of central government expenditure in India, but is as high as 21% in Thailand (Figure 2.1.3). However, based on broad national accounts data, these numbers may underestimate the real level of spending on education. For example, adding state-level education spending to that of the central Government in India improves the figures to 12.8% of total government expenditure and 3.8% of GDP in 2004/05 (Government of India 2007). Similarly, including the subnational data for Indonesia, Arze del Granado et al. (2007) show a more accurate assessment of total education spending, which has been increasing in recent years: in 2006, it was estimated at 16.9% of government expenditure and 3.8% of GDP.

Notwithstanding the size of public spending, to a greater or lesser degree the education systems in the four countries suffer from weaknesses such as outdated curricula, poor education quality, low enrollment and high dropout rates, uneven regional pattern of education participation, limited avenues for vocational training and skills development, and weak education infrastructure.

All four countries boast national youth programs. However, these are relatively few or have had limited success. Lack of impact evaluation of their implementation is the key issue. Absence of labor-market information systems, mismatches among regions in demand for and supply of different skills types, inadequate rural–urban transportation linkages, and inadequacy of urban wages to cover the cost of risk from migration are common to all the countries. Given such failures, the private sector shies away from investment that could support job creation.

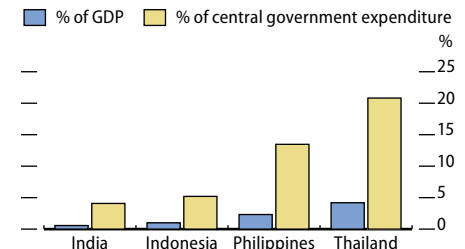
Another common factor is that young people are disadvantaged in their search for work compared with adults (Figure 2.1.4). But trends diverge sharply across the four countries. India and the Philippines appear to have maintained a stable ratio of youth to adult unemployment. In Indonesia the ratio is falling whereas in Thailand it is increasing. It would seem that since the crisis, the lower growth trajectory in Thailand has made the school-to-work transition more difficult for young people, whereas the moderate improvement in the relative position of young people in Indonesia reflects perhaps a return to farm and off-farm work, which absorbs excess labor.

Work and joblessness

Labor force survey data

The latest labor force survey data from each country are used to analyze the profile of their young populations. Labor force surveys are nationwide investigations of households conducted by the national statistical agency of each country. The surveys cover work-related, demographic, and socioeconomic characteristics of the population and are primarily geared to providing information on labor conditions in the country.

2.1.3 Central government education spending, 2007

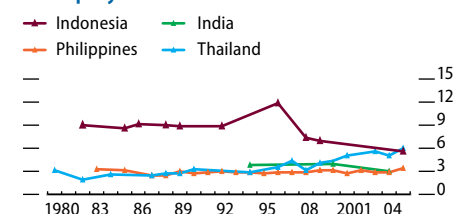


Note: Based on government estimates for the year 2007.

Sources: Ministry of Finance, India, available: <http://finmin.nic.in>; Ministry of Finance, Indonesia, available: <http://www.fiskal.depkeu.go.id>; Bank Indonesia, available: <http://www.bi.go.id/web/en>; Department of Budget and Management, Philippines, available: <http://www.dbm.gov.ph>; National Statistical Coordination Board, Philippines, available: <http://www.nscb.gov.ph>; Ministry of Finance, Thailand, available: <http://www.mof.go.th>; Bank of Thailand, available: <http://www.bot.or.th>.

[Click here for figure data](#)

2.1.4 Ratio of youth unemployment to adult unemployment rate



Source: International Labour Organization, *Key Indicators of the Labour Market* (KILM) database (5th edition), available: <http://www.ilo.org>, downloaded 9 January 2008.

[Click here for figure data](#)

Using sophisticated random sampling techniques (with national censuses as sampling frames), unbiased estimates of the national structure of employment, unemployment, education attainment, and wages are calculated. For each country two sampling periods are used, 10–15 years apart, one in the 1990s and the other in the early years of this century: India (1993/94 and 2004/05), Indonesia (1994 and 2006), Philippines (1991 and 2006), and Thailand (1995 and 2005). Sample sizes are large and range from about 140,000 people in the Philippines in 1991 to about 600,000 in India in 2004.

Before the results are given, several potential weaknesses of the data should be elucidated. The labor force survey data capture statistics of sample households, hence the results may be subject to sampling errors. The sampling in each country is undertaken at different frequencies and durations. In the annual (or less than annual) surveys, the timing of the survey may impact the results, especially for young people, since the “seasonal” component of youth behavior is particularly strong (compared with older age groups), as, for example, if the labor force survey is undertaken during a school holiday. Similar effects could arise if the survey is carried out during a harvest period or tourist season.

The questionnaires used in the labor force surveys not only differ among countries, but also change over time within each country. To maintain comparability, all questions and variable definitions were mapped carefully against each other using applicable and related International Labour Organization (ILO) definitions. There were also considerable changes in industrial and occupational classifications, but as most of these are based on different versions of the International Standard Industrial Classification of all Economic Activities and International Standard Classification of Occupations, a concordance was made to link the datasets. These results should be read with these caveats in mind. Given the differences across countries between the two sampling periods, the comparisons should be seen in qualitative terms, and in relative rather than absolute magnitudes.

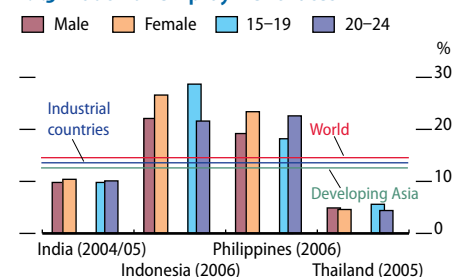
Youth unemployment

Figure 2.1.5 presents estimates of male and female unemployment rates for the four countries based on their latest labor force survey, and compares those rates with averages for developing Asia, industrial countries and the world. It would seem that while youth unemployment rates in developing Asia are high (11.3%), they are marginally below broad averages for industrial economies (12.7%), and for the world (13.2%) as of 2006. But in Indonesia and the Philippines the unemployment rates for young men and more so for women, are far higher than those averages. On this indicator, the young people of India and Thailand fare better.

Unemployment versus joblessness

Commentators have questioned the adequacy of the youth unemployment rate as an indicator of youth labor market conditions (for example, Rees 1986, Bowers et al. 1999, Ryan 2001, Fares et al. 2006, ILO 2006, World Bank 2006b, O’Higgins forthcoming). A lower unemployment rate, for instance, may stem from a contraction in the labor force participation rather than from an increase in employment. Specifically, attention has

2.1.5 Youth unemployment rates



Note: World and regional groupings based on International Labour Organization definition. Developing Asia comprises East, Southeast, and South Asia.

Sources: Staff estimates based on data from labor force surveys; International Labour Office (2007).

[Click here for figure data](#)

begun to focus on discouraged young workers who are excluded from youth unemployment statistics, that is, young people who are neither in education nor employment and who are not actively searching for work. Young people who become discouraged when jobs are difficult to find may drop out of the labor force. (This group includes all those who are not in education or employment.) In other words, young people who are not engaged in a “useful” or “productive” activity—so-called jobless youth.

In this chapter, the jobless rate is defined as the percentage of all young people who are neither in education nor employment. This is a useful indicator because it takes account of discouraged young people, who are the most in need of support in terms of education, training, and counseling to minimize the risks of them becoming entirely detached from the labor market. The jobless rate gives a sense of the size of youth labor market problems in relation to the youth population as a whole.

It is perfectly possible for youth unemployment rates to be very high but, if labor force participation is very low, to affect only a very small proportion of the young. Using the jobless rate as an indicator also reduces the problems of comparison over time and among countries, as the definitional requirements are much less strict than for the unemployment rate. The jobless rate may be bigger (or smaller) than the unemployment rate according to whether the proportion of the inactive population that does not participate in education is greater (or less) than the proportion of the active population that is unemployed.

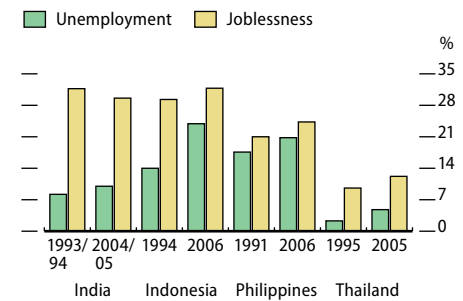
As evident from Figure 2.1.6, unemployment rates do indeed gloss over the presence of large numbers of discouraged workers in all the four Asian countries. Rates of joblessness are much higher than conventionally defined rates of unemployment. The difference is particularly stark for India, where rapid economic growth has not translated into equivalent job creation. Though youth joblessness has declined there, the reduction has been marginal. As explained later, the decline appears to have come mainly from a reduction in joblessness among young women. In the three Southeast Asian countries, joblessness among young people has worsened, and has recently been highest in Indonesia. Thailand has maintained the lowest youth joblessness rate among the four countries.

The jobless rate also gives a rather different picture regarding the relative position of different categories of young people. This is discussed in the following sections.

Young women versus young men

Young women normally face significantly more difficult labor market conditions than young men. This is captured by their greater jobless rates (Figure 2.1.7). Although the difference is less severe in Southeast Asia than in India, jobless rates have risen among men and women. In contrast, young Indian women—though still highly disadvantaged in comparison with men—have enjoyed a fall in joblessness as the country tapped into their rising potential, especially in urban areas. For instance, nearly 50% of young software workers in 2004/05 were women. Cultural perceptions of gender roles influence women’s opportunities to plan a career. A wide literacy gap between boys and girls is partly responsible for higher joblessness among the latter. In Asia, parents, particularly in low-income

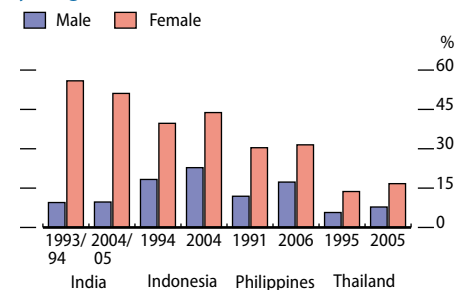
2.1.6 Youth unemployment versus joblessness



Source: Staff estimates based on data from labor force surveys.

[Click here for figure data](#)

2.1.7 Jobless rates for young men versus young women



Source: Staff estimates based on data from labor force surveys.

[Click here for figure data](#)

families, prefer to send sons to school first and poor young girls are often left with the option of getting married, resulting in a movement from one poor household to another. Rigid working arrangements also affect female labor supply.

Urban versus rural young people

Relatively more urban young people used to be jobless than their rural counterparts in the 1990s. But the early years of this decade have brought a reversal in the pattern in three of the four countries. Joblessness is now usually higher among the young in rural areas than in urban areas (Figure 2.1.8). The Philippines is an exception where internal migration is an essential element of rural livelihood strategies and rural transformation, not just a way to escape rural areas (Quisumbing and McNiven 2005). Family networks in the countryside support large flows of migrants attracted by prospects of better education and higher wages in the towns and cities of the Philippines, where 75–80% of first-time migrants live with relatives and acquaintances.

Young adults versus teenagers

Joblessness is much higher among young adults (aged 20–24) than teenagers (aged 15–19) (Figure 2.1.9). This is most probably because of the higher proportion of teenagers who are still in full-time education. Both these age groups in Indonesia, Philippines, and Thailand experienced an increase in joblessness following the financial crisis. Job-hopping by young adults is one cause of their higher joblessness.

The inexperience of young workers is reflected in the lack of satisfaction in their initial job choices. For example, Topel and Ward (1992) find that a typical young man changes jobs seven times in the first 10 years of his career, and that transition to a higher-wage job stabilizes employment. Similarly, Neal (1999) finds that the probability of high-school graduate boys leaving their first job in a given career is 70% for workers with fewer than 7 years of experience. Once they exceed this period, the probability drops to 45%.

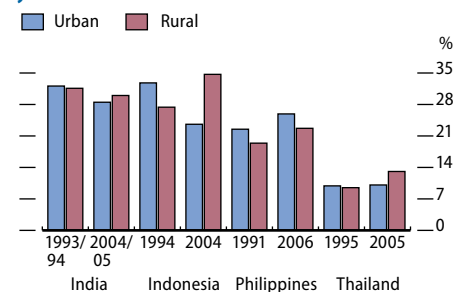
Educated versus uneducated

As the less educated grow older, their jobless rate climbs higher than that of the more educated. On the whole, there is an inverse relationship between education level and joblessness for those aged 25–34 (Figure 2.1.10). The most marked effects are for those with a tertiary level of education and those who have not completed even the most elementary level. The relationship is strongest in Thailand, where those without any education are five times as likely to be jobless as those with a bachelor's degree (or higher).

School-to-work transition and opportunity cost of waiting for a job

For those who have finished school, the transition to work takes time. Before finding a job, young people have to wait for an appropriate opening, because of their limited skills and their inexperience. The duration of transition indicator of the Organisation for Economic Co-operation and Development is the difference between the median ages of school-leaving and entry into employment, and these can be

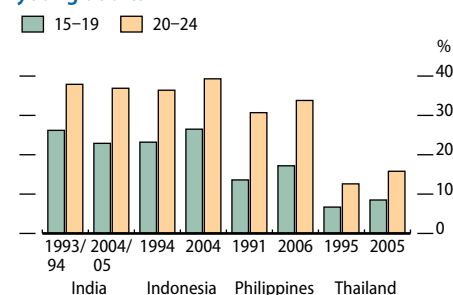
2.1.8 Jobless rates for rural versus urban youths



Source: Staff estimates based on data from labor force surveys.

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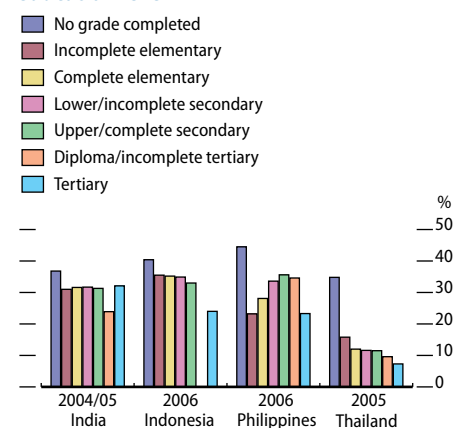
2.1.9 Jobless rates for teenagers versus young adults



Source: Staff estimates based on data from labor force surveys.

[Click here for figure data](#)

2.1.10 Jobless rates of people aged 25–34 by education level



Source: Staff estimates based on data from labor force surveys.

[Click here for figure data](#)

calculated from labor force survey data (Figure 2.1.11).² A lower difference does not mean that the typical young person takes less time to find a job but that the incidence of joblessness is much lower. A comparison of data between the two data time points shows that the number of schooling years has generally increased, culminating in average school-leaving ages of 17–19 years. The age at which young people start finding jobs has either increased or remained around the same, at 20–22 years. As a result, the estimated duration of waiting time in the job market varies between 1 and 5 years across the four countries. This is despite the fact that labor forces have generally received more education over the past 10 or 15 years, and more so in the case of younger workers.

As young people leaving school typically do not immediately find employment, joblessness increases. However, high joblessness need not always be a sign of labor market difficulties if flows into and out of work are high and spells of unemployment short. But equally, low joblessness does not rule out problems. If flows are low and spells are long, low joblessness may be associated with chronic problems (Ryan 2001).

Remaining unemployed while searching for a job results in a loss of earnings. This loss can be calculated as the product of the median length of waiting time in the job market and the real median wage for young workers. This loss is calculated for young workers with 0–5 years of experience and those with 3–6 years of experience (Table 2.1.1). The loss has increased over time, reflecting the higher opportunity cost of searching for a job. The comparatively high losses for more experienced young people in India and less experienced ones in the Philippines echo changes in the median wages.

Structure and quality of employment

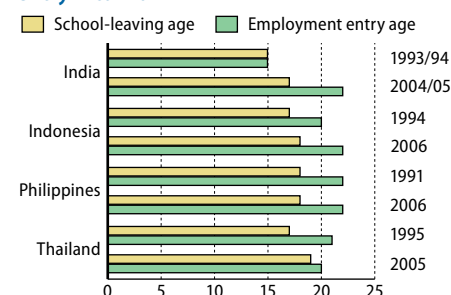
Finding decent and productive jobs is a formidable challenge for workers in general, but it is a particularly serious challenge for younger workers, and especially for young women. The difference between young male and female employment ratios in India is the highest among the four countries, at around 30 percentage points (Figure 2.1.12), though the gap is large in Indonesia and the Philippines as well. Underemployment, commonly defined as underutilization of labor time of workers—for example, due to seasonality in work or availability for alternative work—is also of acute concern as is the quality of jobs that the young do. Of total workers, about 5% in India, some 20% in the Philippines, and 3.5% in Thailand are reportedly underemployed.

Sector distribution of young workers

An idea of where the potential for future youth employment may lie is given by current patterns and trends in the structure of youth employment. Over the past 15 years, youth employment has in general shifted from agriculture toward manufacturing and services (Figures 2.1.13a–c). As incomes rise, it is natural to expect a decrease in the contribution of agriculture to GDP and hence to employment. But despite the retreat from agriculture, the sector remains a significant employer of young workers.

Slow agricultural productivity growth contributes to the problems

2.1.11 Median age for school-leavers and entry into work



Notes: School-leaving age: The age at which, for the first time, the ratio of the number of students to the population at that particular age falls below 0.5. Employment entry age: The age at which, for the first time, the ratio of the number of employed to the population at that particular age climbs above 0.5.

Source: Staff estimates based on data from labor force surveys.

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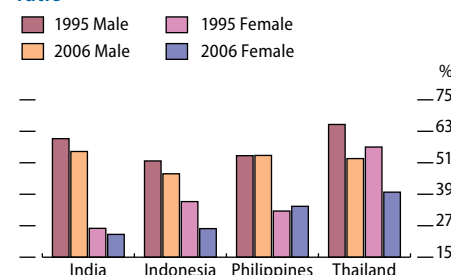
2.1.1 Annual increase in estimated cost of job search for youth (%)

Years of experience	India 1993–2004	Indonesia 1994–2006	Philippines 1991–2006
0–5	1.84	0.40	8.09
3–6	2.84	0.40	6.78

Notes: Cost of job search = median wage x average length of job search

Source: Staff estimates based on data from labor force surveys.

2.1.12 Youth employment to population ratio



Source: International Labour Organization, *Key Indicators of the Labour Market* database (5th edition), available: <http://www.ilo.org>, downloaded 9 January 2008.

[Click here for figure data](#)

faced by young workers. Teenagers in particular are dependent on agricultural employment. This is most probably a consequence of lower education participation in rural areas as well as lower skills requirements for agricultural occupations. High levels of teenage participation in the sector probably also reflects slower job and income growth in the urban sector following Asia's financial crisis as well as the "return to the land" survival strategy that some young migrants were compelled to follow.

Industrial and services sectors seem to employ a larger share of young workers in their prime age (20–29 years). In India and Thailand, industrial employment accounts for a higher proportion of total youth employment in the 2000s than in the 1990s. But in Indonesia and the Philippines, the movement out of agriculture has generally been toward services rather than industry. It is notable that in both countries, growth of the industry sector has been hobbled by stagnant productivity (ADB 2007a, p. 274).

In all four countries, employment opportunities for young workers have grown most rapidly in services (Figure 2.1.13c). The sector has drawn labor out of agriculture, but in Indonesia and the Philippines, the share of services has grown at the expense of industry, too. Though segments of services employment are highly productive, most jobs in the services sector are confined to low-wage, traditional occupations such as those in retail sales, low-end real estate, hotels, and restaurants. The quality of these jobs is a matter of concern. More than half of youth employment in these four countries, especially in services, is informal, characterized by low wages, long hours, poor working conditions, and lack of job security.

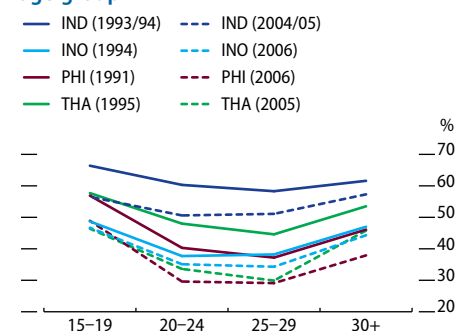
Incidence of informal employment

The incidence of informal sector employment is an important indicator of job quality. Typically, its importance rises during growth slowdowns as self-employment rises. Conventionally, "informal sector" or "informal economy" employment captures employment that is not registered for legal purposes.³ This covers employment not just in firms that are not registered for tax purposes, but also "unregistered" employment in registered firms.

In many lower-income countries, a pragmatic approach to measurement is adopted, principally on the basis of firm size and, to some extent, the employment relation. In this chapter, informal sector employment covers the self-employed, as well as unpaid and paid family workers, and casual (seasonal, nonpermanent, or nonregular) workers. Formal sector workers are all regular salaried and wage workers.

Figure 2.1.14 depicts data on the incidence of informal employment by age and gender. Because of definitional differences, not too much weight should be placed on the cross-country comparison of absolute numbers. At a broad level, informal employment is generally higher among women than men. In general, both adult and young workers are becoming more formalized. But the trend is more noticeable for the latter. This trend could be explained by the preference of formal sector employers for young workers who tend to be relatively more educated, cheaper, and more flexible than adult workers.

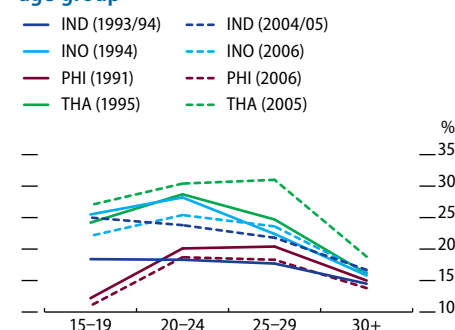
2.1.13a Youth employment in agriculture by age group



Source: Staff estimates based on data from labor force surveys.

[Click here for figure data](#)

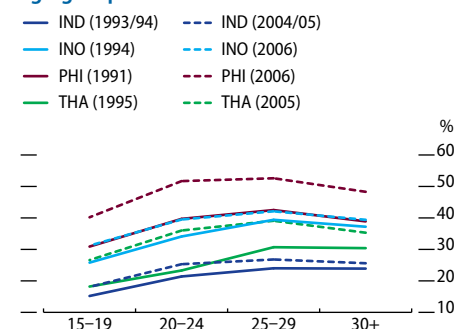
2.1.13b Youth employment in industry by age group



Source: Staff estimates based on data from labor force surveys.

[Click here for figure data](#)

2.1.13c Youth employment in services by age group



Source: Staff estimates based on data from labor force surveys.

[Click here for figure data](#)

Vulnerability in jobs

Though employment of any kind generates income, it does not always guarantee an escape from poverty. Young people without a job or on low wages remain at risk of poverty (Figure 2.1.15). ILO estimates that in 2007, 6–8 out of 10 workers in Asia were in vulnerable employment, without formal employment arrangements or social security protection. Extreme working poverty is a serious problem. The majority of young people are in the informal sector and engaged in casual jobs. Paid and self-employed workers who earn less than \$2 a day and unpaid family workers account for a significant proportion of young workers. In 2005, approximately 25% of the world's young population were living below the \$2-a-day poverty line (ILO 2006). Those who cannot find formal sector jobs and face the prospect of extended spells of unemployment often find self-employment or “forced entrepreneurship” as the only option of a survival strategy. Such workers are often poorly educated. Though entrepreneurship can be associated with independence, with flexibility of work hours, and with better job satisfaction, this is rarely the case for young informal workers.

Education, skills, experience, and wages

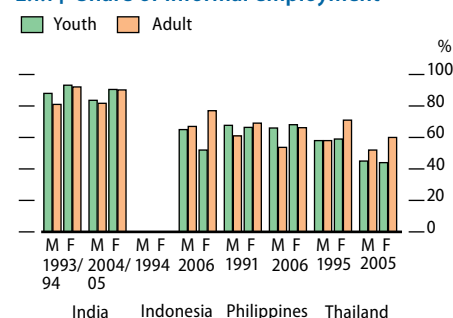
Young people often reach working age without acquiring basic skills, including literacy and numeracy, which are vital to improve their employment prospects. A large number of children unable to afford the cost of supplies, uniforms, and other expenses drop out of primary school every year, and often take up work to supplement family income. Several studies have identified the disproportionately high direct and indirect costs of education for low-income households as the main cause of early school-leaving (for example, World Bank 2003, Sziraczki and Reerink 2004).

Lack of education is a major reason why the poor in developing Asia often end up in informal sector jobs with pitiable working conditions. Education is a key determinant of decent employment opportunities for young people and an important factor influencing the long-run growth potential of the economy. But a large gap exists between education achievements of the poor and the nonpoor. Poverty creates barriers to education opportunities that can improve long-term income prospects. Traditional practice, culture, and institutions such as caste, community networks, the language spoken at home, or the education of parents often determine the type of school attended by children.

This in turn, may typecast them into low-paying traditional occupations. Munshi and Rosenzweig (2006) observe such dynamic economic inefficiency among low-caste working boys in India. These boys were deprived of higher returns from rapidly rising salaries in white-collar jobs merely by having studied in a local-language school and not an English-medium school, binding them to the local-language network. Lack of access to finance and meager wealth also prevent lower-class children from joining more expensive English-medium schools.

Even among people with low education achievement, those who receive vocational training are likely to register lower joblessness rates. But the education systems do not adequately prepare young people for labor market entry. Vocational preparation is often postponed to senior secondary school. Labor market-oriented tertiary education accounts

2.1.14 Share of informal employment



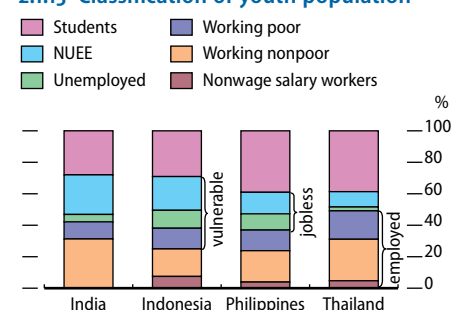
M = male; F = female.

Note: The number of casual workers in Thailand cannot be determined due to lack of disaggregated data.

Source: Staff estimates based on data from labor force surveys.

[Click here for figure data](#)

2.1.15 Classification of youth population



NUEE = Not unemployed, employed, or in education.

Note: For Indonesia, Philippines, and Thailand, working poor and working nonpoor only covers wage and salaried workers.

Source: Staff estimates based on data from labor force surveys.

[Click here for figure data](#)

for only 25% of technical and vocational education-related enrollments (Adams 2007). Many technical and vocational education and training (TVET) institutions focus exclusively on traditionally male skills areas. The system of TVET is fragmented and supply driven. In India, only 1.4% of young people receive formal vocational training, 3.7% nonformal training, and 3.4% other training (TeamLease Services 2007). The Indonesian system suffers from a fragmented and supply-driven TVET system, and the Government has recently begun to develop a national qualifications framework, a keystone to the reform of the system. Generally, inadequate training leads to a mismatch in skills of young workers and the needs in the labor market. Skill shortages also constitute a key constraint to the operation and growth of businesses. In India, for example, only 30% of IT graduates are employable in the IT sector (TeamLease Services 2007).

An examination of returns to education for youths and adults throws some light on the growing difficulties that the young face. In Figure 2.1.16, nominal median wage rates in the four countries are plotted for young and older workers classified by education. Wages have increased over time. While median wages for young workers are generally below their adult counterparts for the same levels of education, there is not much difference in wage by age for those with only up to primary or middle schooling. However, as the levels of education rise beyond this, the gap between youth and adult wages widens. This may depict returns to the longer experience of adults at higher levels of education.

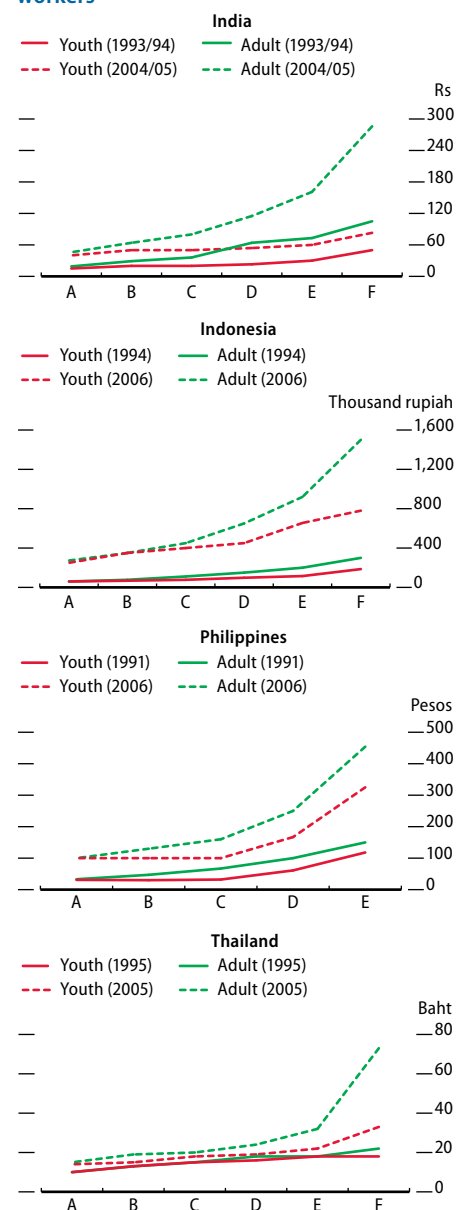
The data for Indonesia and Thailand also show that the median wages of young people and adults were almost identical for all levels of education in the 1990s, and in the Philippines the difference was small. The gaps that opened up in the subsequent decade may have been caused by the fact that young workers of all education levels bore the brunt of joblessness during the crisis and as a consequence lost valuable years of experience. Or it could mean that young workers accepted lower-paid jobs that did not equip them with the experience or skills commensurate with their education levels.

Another possible explanation for the widening gap is that the demand for general and occupation-specific skills has been rising in new jobs, which require teamwork and creativity (Lerman 1997). As employers come to attach greater importance to skills, they place lower weight on demographic characteristics such as race, gender, family background, or place of residence but reward well-educated and trained workers with higher wages. Higher wages and returns to education may have encouraged young people to stay in the education system longer.

Certainly, years of education have risen across the four countries. Expanded availability of more qualified workers relative to new jobs appropriate for their level of education may in turn have led to the employment of overqualified people in comparatively low-skilled tasks. Figure 2.1.17 confirms that in all four countries, the proportion of young employed people with education above middle school has shot up and those with only elementary education or less has fallen.

A comparison between young women and men shows that, except in Thailand, a gender bias exists in returns to higher education. Men and boys receive higher median wages than girls and women for given

2.1.16 Median wages of youth and adult workers



A = less than primary; B = primary; C = middle; D = secondary; E = higher secondary; F = postsecondary.

Note: Daily wages for India and the Philippines, monthly wages for Indonesia, and hourly wages for Thailand.

Source: Staff estimates based on data from labor force surveys.

[Click here for figure data](#)

levels of education (Figure 2.1.18). This bias is most pronounced in India, followed by Indonesia and the Philippines. But the gap has narrowed between the two sampling periods, especially in Indonesia and the Philippines.

Policy conclusions

Box 2.1.2 presents the major findings of this chapter and identifies policy approaches for addressing the issues in four selected countries of developing Asia, namely, India, Indonesia, Philippines, and Thailand. Policies promoting youth employment can be classified into those that aid employment generation in general and those that are particularly targeted at young people. The former category includes macroeconomic policies and labor market regulations. The latter covers education policies as well as guidance and training for the young. (International migration offers an alternative for those facing poor employment prospects at home, dealt with in the chapter *Asian workers on the move*.)

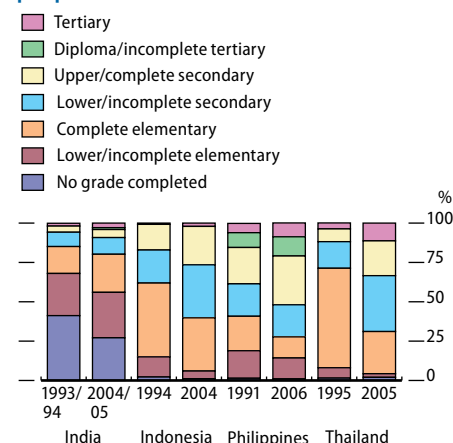
It is axiomatic that any strategy to facilitate productive youth employment must be centered on a strategy for growth and job creation as a whole. Even in periods of high levels of economic expansion, formal job growth has lagged. To an extent, this is natural and indeed beneficial, as it reflects rising levels of labor productivity and real wages. But declining responsiveness of newly created jobs to growth in the four countries suggests that countries have to “run faster” than they used to, in order to create the same number of new jobs. As the private sector is responsible for about 90% of jobs created in most developing economies, constraints on business hurt workers, especially young workers (Pierre and Scarpetta 2007). These constraints need to be looked at in their country context, and blanket recommendations, beyond easing those constraints, are not particularly helpful.

Firms can expand and create formal jobs if it is easy to do business. A study on India by the World Bank highlighted inadequate infrastructure, lack of access to finance, and product and factor market distortions as the major constraints to business (World Bank 2004). Different local regulatory requirements and differences in the implementation of national regulations cause substantial differences in the ease of doing business among Indian cities (World Bank 2007b). In the Philippines, low investment rates reflect a variety of problems including inadequate infrastructure, poor governance and corruption, and market failures that keep the industrial base narrow (ADB 2007b). Firms in Indonesia cite macroeconomic instability, economic and regulatory policy uncertainty, and corruption as primary constraints to business, followed by taxation, cost of financing, and labor issues (ADB 2005). Thailand is a best practice economy for starting a business and ranks high at 15 out of 178 economies in ease of doing business. But its ranking drops to 49 for employing workers, largely due to the cost of firing, which amounts to 54 weeks of wages (World Bank 2007c).

Labor market regulation

An important set of factors that influences employment opportunities are labor market regulations, which include employment protection

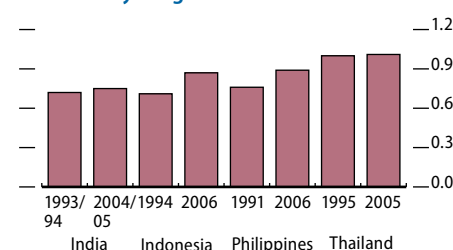
2.1.17 Education profile of employed young people



Source: Staff estimates based on data from labor force surveys.

[Click here for figure data](#)

2.1.18 Ratio of median wages of young women to young men



Source: Staff estimates based on data from labor force surveys.

[Click here for figure data](#)

2.1.2 Key findings

- **An appropriate policy and institutional atmosphere is required to create productive and decent employment opportunities for young people, whose share in the total population may soon fall from its peak in developing Asia.** Labor force survey data from India, Indonesia, Philippines, and Thailand show that uneducated youth and those with little work experience are the most vulnerable to high unemployment, informality, and low pay. They are the first to lose jobs in cyclical downturns. The young have suffered disproportionately in Indonesia and Thailand, where the Asian financial crisis destroyed jobs and recovery has been protracted. If young people are productively employed, they can generate higher growth and yield a “demographic dividend.”
- **Joblessness has increased, and competition from adults has become tougher.** Youth are at a disadvantage compared to adults, young women to young men, and rural youth to urban youth. In anticipation of higher returns to education, young people are spending longer years studying. But they face stiff competition from adults for limited job opportunities—youth employment elasticity of growth is low in India and negative in Indonesia and Thailand (Kapsos 2006). Manufacturing and services are absorbing larger numbers of youth in their prime age (20–29 years). Though some parts of services sector employment are highly productive, most are of poor quality. More than half the young workers are in the informal sector. Growth of formal sector employment remains constrained by a restrictive business environment, limited access to finance, and rigid labor regulations.
- **Transition from school to work has become difficult and costly, and returns to education have fallen for the young.** Low-quality education for poor students creates a vicious dynamic of low enrollment, high dropout rates, and low education attainment, which is often transmitted across generations. Training facilities that would allow the young to acquire the skills relevant to market needs are substandard. Lack of education drives the poor and the young toward low-productivity, services jobs. For the same levels of education, the gap between youth and adult wages has widened over time, and among young workers a gender bias persists in wages. This is partly due to higher demand among employers for an increased premium for experience. Yet a faster rise in the supply of educated youth than of employment opportunities has led to overqualification in employment.
- **A multipronged approach is needed to address Asia’s youth-employment demand and supply constraints beyond the labor market.** Easing obstacles for entrepreneurs is the key to creating more jobs. Sound economic management, an enabling business climate, and a flexible labor market will provide incentives for formal sector job creation. An improved system of education and targeted training can enhance the ability of workers, especially girls and the poorly educated.

legislation and minimum wages. These particular aspects of regulation are likely to affect young people more than other groups. Since, by virtue of their age, they are either new or recent labor market entrants, young people are more likely to be affected by employment protection legislation in as much as this impedes new hires. Similarly, they will likely be disproportionately represented among the low paid, and so may be more affected than other groups by minimum wage legislation. Other kinds of regulation, such as those on workplace health and safety, have a more age-neutral effect on workers of different ages.

In principle, minimum wages, required notice of separation, restrictions on hours of work, and severance payments could all help young workers. In principle, too, they could help employers, if they raise productivity, cut back on labor turnover, and reduce absenteeism. In practice, however, the issues are not so straightforward and the design of policy is difficult. The effects of both minimum wages and employment protection legislation are likely to be small simply because of the extensive informal sectors operating in the four countries.

A first and basic issue is about how easily labor markets lend themselves to regulation and the capacity for implementing regulations.

In countries with large informal sectors, such as the four countries under consideration in this chapter, enforcement of minimum wages has proven problematic. Between 11% and 31% of young employees and the self-employed in Indonesia reported earning less than the statutory minimum wage in 2002 (Sziraczki and Reerink 2004). In India, average daily earnings of casual workers in 2004/05 were 84% below the minimum wage (Mazumdar 2008).

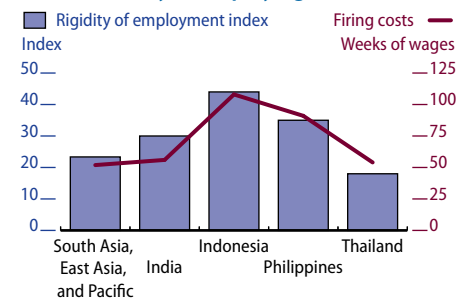
Even if the implementation of minimum wage legislation is possible and coverage widened, it may not actually improve outcomes at an aggregate level. Looking at a broad cross section of countries, Neumark and Wascher (2007) observe small or negative employment effects of minimum wages—estimates of teenage employment elasticity with respect to the minimum wage range from below -1 to above 0. If minimum wage regulations raise marginal costs, they will come at the expense of jobs. Murgai and Ravallion (2005) find that a guaranteed minimum wage policy in rural India brings limited poverty reduction, costing 3.7% of GDP to support the program through the year (with 90% wage cost and 10% nonwage cost). An untargeted rural transfer of the wage cost would have a much greater poverty impact.

Another well-known problem with regulations that protect workers who already have jobs is that they may work against job seekers or “outsiders,” reducing their employment opportunities and perpetuating disadvantage. Several developing countries provide a relatively high standard of protection to workers in the organized sector at the cost of those in the unorganized or informal economy (Pierre and Scarpetta 2007). Labor protection in India is inversely related to growth in manufacturing, employment, elasticity of labor demand, and entry of new firms, and has possibly benefited the rich more than the poor (Ahsan and Pagés 2007, Besley and Burgess 2004, Hasan et al. 2003, Kochar et al. 2006). Sugiyarto (2005) observes that labor market regulations have partly been responsible for slower employment growth in Indonesia. He finds that increases in real minimum wages exceeded productivity growth after the Asian crisis.

Economic and political instability harms mainly small enterprises, the major drivers of new job creation in developing countries. Figure 2.1.19 presents indicators of difficulties that firms face in employing workers. Businesses in the four countries face generally more severe conditions than in most of Asia. In Indonesia, a firm has to pay 2 years of pay on severance. India and Thailand also require more than 1 year of salary. If the costs of regulation cannot be absorbed by employers or offset by productivity gains, they are also likely to push economic activity underground or to encourage employers to find other ways of evading regulations. In India and the Philippines, for example, short-term employment contracts are often used to reduce benefit entitlements. So if there is a large pool of unemployed workers, as is the case for many low-skilled occupations, employers prefer to turn over workers quickly.

Tackling the disadvantages that young people face in the labor market through regulation seems likely to run into problems. Writing the rules is one thing; enforcing them is something completely different. And even if statutory regulations can be implemented honestly, a wide variety of evidence suggests that they may do unintended harm to those whom they

2.1.19 Difficulty in employing workers



Notes: The rigidity of employment index captures the difficulty of hiring a new worker, the restrictions on expanding or contracting the number of working hours, and the difficulty and expense of dismissing a worker. Firing costs are those entailed in making a worker redundant, expressed in weeks of wages. Higher values indicate more rigid regulations.

Source: World Bank, *Doing Business 2008* database, available: <http://www.doingbusiness.org>, downloaded 19 March 2008.

[Click here for figure data](#)

were intended to protect. Examining government regulations in the area of employment and social security laws, *Doing Business 2008* finds that young people and women lose out from rigid employment laws (World Bank 2007c). One way to increase prospects for youth employment is to allow for more flexible contracts that provide, for example, a trade-off between wages and length of service, along with a safety net for those who cannot find work (Basu and Maertens 2007).

Education and training

An alternative route to combating the constraints that the young face in the labor market is to invest in their human capital. A compelling attraction of this approach is that the gains of education and knowledge for the current generation (especially for girls) are likely to be transmitted to their children, promising enduring benefits across society. Investing in education of the young is about much more than hardware and building schools. Relevant and stimulating curricula are needed as are knowledgeable and passionate teachers. Equality of opportunity demands that the incentives faced by poor families are tipped in favor of education, given the high opportunity costs of keeping boys and girls of poor and disadvantaged families in school. In many countries, girls may need larger moral and financial support than boys. Policies that encourage school completion and early school-leavers to return to school should also target socially excluded and marginalized students from ethnic, tribal, and backward classes, since children from these groups frequently have a higher incidence of early dropout and are subsequently at risk of persistent unemployment or low-paid work.

Conditional cash transfer systems, which have been used to great effect in Latin America to promote education participation among low-income households, are one way of providing incentives for continuation of studies that merit serious attention. These systems provide cash transfers to households, conditional on school attendance by children and are based on means testing to determine eligibility. In Asia, successful examples of similar programs are Bangladesh's Food for Education initiative and India's Mid-day Meal scheme, both introduced during the 1990s to improve school participation through provision of meals to children, provided that they attend school.

The design of appropriate programs must of course take into account context and circumstances—"one size fits all" fits hardly anyone. In India and the Philippines, the emphasis needs to be on those at the bottom of the scale who receive little or no formal education, whereas in Indonesia and Thailand the attention may more fruitfully be aimed at maintaining enrollment beyond early childhood.

Other aspects of education reforms that would help build a productive labor force include standardization of curricula of national education systems across regions and schools, promotion of better achievements in general education, a good certification process, placement services by schools for faster school-to-work transition, and vocation-oriented secondary and tertiary education to generate a qualitative improvement in learning achievements. Closer partnership between industry and universities can help design tertiary curricula suitable for industry's needs.

Skills training

Beyond school, it is important to address the problem of mismatch between the skills of young workers and the emerging needs of the market. Young people who are unable to find jobs on the basis of schooling alone would benefit from appropriate skills-training programs. This is more likely to benefit those leaving the schooling system early and with low levels of achievement. India, for example, is revamping its youth employment programs through a new skills development initiative. Thailand, whose competitiveness was traditionally based on cheap labor, will need to shift weight and invest in a knowledge and skills base.

A “dual system” with work-based apprenticeship and classroom instruction has been tried in some developing countries. Germany offers a good example, through an education and training system that does well in promoting youth employment. Its ratio of youth to adult unemployment rates is about one to one, an achievement that is quite unusual even among industrial countries. Developing Asia could learn from specific design features of the German system. A critical ingredient is the strong involvement of employers in the provision of training, which ensures its labor market relevance. The German system guarantees equitable access to places, and its high (and recognized) quality means that participation does not carry the stigma associated with vocational education in many other countries (World Bank 2006b). In developing Asia, however, systems would have to be geared to ensure the inclusion of young people who are vulnerable to marginalization and exclusion. This may require meeting other basic needs, such as shelter and food, for which young trainees could help pay in kind.

The Philippines tries to overcome the above problem of access and equity by implementing a Ladderized Education Program and Training for Work Scholarship Project under its Technical and Vocational Education and Training system. The former provides flexible entry and exit in the education system and job opportunities at every exit, while the latter directly intervenes in the provision of training for highly needed skills. But as this system is not as deeply rooted in the business sector as Germany’s dual training approach, efforts to widen its acceptance within industry and services should be strengthened.

Active labor market policies or programs

Active labor market policies include measures such as job training and search assistance, remedial education, and direct job creation to help young people who are not employed or working in the informal economy find decent formal employment (for example, Betcherman et al. 2007). These policies largely fulfill a remedial role in correcting malfunctions in the education system and in labor markets. The main options usually involve skills training, support for youth business start-ups, and a combination of support services.

Employers place heavy demands on workers during recruitment, putting young workers, who have little or no experience, at a clear disadvantage. Labor market-based training, often combined with wage subsidy, is the most effective form of intervention for young people (O’Higgins 2001). Youth training programs have been quite successful in East and Southeast Asia. For example, in the Philippines, the

Working Youth Centers implemented by the Department of Labor and Employment have had a positive impact on the employment and wage prospects of participants (Stavreska 2006). But in India, an estimated 82.5 million youth need vocational training, which would cost 10% of GDP and generate additional income equivalent to 60% of GDP for current unemployable youth (TeamLease Services 2007).

Programs promoting business start-ups for young people are fairly common in East Asia. All six programs reviewed by Stavreska (2006) have had positive impacts. These include the Young Professional Entrepreneur Development program in Indonesia and the Farm Youth Development Program in the Philippines. The broader analysis of Betcherman et al. (2007) finds highly positive effects for such programs, although they lack potential for scaling up. India's Training of Rural Youth for Self-Employment scheme provides basic technical and entrepreneurial skills to the rural poor aged 18–35 years for self- or wage employment. At least 40% of the beneficiaries have to be women. The scheme has been only partly successful, because it is not well integrated with an overall strategy for self-employment, and the training fails to address the capacity or aptitudes of the trainees or the market demand for a particular skill (Mitra 2007).

Betcherman et al. (2007) find that guidance and counseling programs targeted toward economically disadvantaged young people are more successful than programs aimed at young people as a whole. Gender counseling, training, and placement services for young women combined with awareness creation for employers through mass media can help remove constraints faced by young women in the labor force. O'Higgins (2001) suggests that the quality of active labor market programs is likely to be higher if stakeholders are involved in their design and implementation.

Endnotes

- 1 Young men and women aged 15–24 are usually considered as “young people,” “youth,” and “the young,” interchangeably in this chapter; those aged 25 and above, “adults.” This follows internationally accepted definitions. In analyzing individual country data, however, other age groups, as available, are used.
- 2 See, for example, Quintini and Martin (2006). Note that the “duration of school to work transition” indicator calculated from cross-section data does not tell very much about the actual length of time it takes for young people to find work on leaving school for reasons discussed in O'Higgins (forthcoming). However, it does provide a relative indicator for comparison over time and across countries.
- 3 There has been much discussion of the definition of the informal sector. In official terms, the most important document is the Resolution on Informal Sector Employment agreed at the Fifteenth International Conference of Labour Statisticians in 1993 (ILO 1993). The resolution opts for the term employment in the “informal economy” since informal employment is not separate from regular employment. See also Henley et al. (2006) for a recent discussion.

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