

will be deployed in the future; they amount to about one quarter of total personal assets in Japan. In theory, it is possible that government bonds would no longer be absorbed by the privatized entity in the future. If so, that would create new complexities for the Government in financing its future budget deficits.

New Zealand does not appear to face major economic issues other than the current account deficit and the risks attached to funding it. In this regard, two aspects of the country's foreign debt stand out. First, foreign debt, at roughly 105 per cent of GDP, is becoming more concentrated in the banking sector and its maturity has shortened. The foreign currency composition of the debt, at just over 52 per cent, remains a large but declining share, with the currency risk substantially mitigated through hedging. Second, interest rates need to remain higher than other circumstances might demand in order to keep funding the deficit. The higher interest rates almost certainly exert some upward

pressure on the exchange rate and make New Zealand exports less competitive, despite the improvement it has experienced in the terms of trade. At the same time, the higher interest rates do not appear to have succeeded in increasing domestic savings, the primary cause of the current account deficit. Reducing the current account deficit thus has major policy implications for the future that cannot be easily resolved.

Despite these risks, New Zealand remains well placed to absorb adverse shocks without undue stress. The Government's decisions in 2004 to increase international reserves and to intervene in the exchange market if the exchange rate deviates too far from its historical value are steps in the right direction. Fundamentally, the current account deficit needs to be viewed against the background of a prudently managed market environment supported by sound policies. Market participants see even major exchange rate swings as unlikely to pose a systemic risk for the economy.

III. EMERGING UNEMPLOYMENT ISSUES IN ASIA AND THE PACIFIC: RISING TO THE CHALLENGES*

INTRODUCTION

Jobless growth, the working poor and youth unemployment are becoming key concerns relating to unemployment in the region

Despite significant progress in economic growth and poverty reduction, Asia and the Pacific continues to be a region of considerable disparity, with approximately 679 million people living in poverty.

One of the main reasons behind this is the lack of adequate job creation. Labour markets in the region have hardly progressed relative to the region's economic gains. In many countries in the region, the rate of unemployment has increased although a few have witnessed some improvement in 2003. Underemployment and child labour continue to be issues of concern. The region is also confronting three specific issues: jobless growth, the working poor

and youth unemployment, hence the special focus of this chapter.¹

While the region's 5.7 per cent average annual rate of economic growth over the past 10 years has been the highest in the world and has far outpaced the global average of 2.7 per cent, employment has grown by 1.6 per cent compared with a growth rate of over 1.7 per cent annually in the labour force. As a result, increasing unemployment has sparked fears of jobless growth in some parts of the region.

The region accounts for a major share of the world's working poor, as indicated by the large share of people at the margin of the poverty line. For example, the share in total employment of those living on less than \$2 a day was as high as 88 per cent in South Asia, 59 per cent in South-East Asia and 49 per cent in East Asia in 2003, although there have been significant improvements over the years.² This indicates that unemployment is not the only problem: equally pressing

* The term "unemployment" refers to all persons above a specified age who, during the reference period, were without work, currently available for work and seeking work. Persons working less than one hour per week are considered to be unemployed. It should be recognized that national definitions and coverage of unemployment can vary with regard to age limits, criteria for seeking work and treatment of persons temporarily laid off (i.e., discouraged about job prospects or seeking work for the first time).

The term "working poor" refers to the proportion of employed persons living in a household whose members are estimated to be below the poverty line.

The term "labour force" refers to the supply of labour available for the production of goods and services in an economy. It includes people who are currently employed, people who are unemployed but seeking work and first-time job-seekers but does not include unpaid workers, family workers, students and sometimes members of the military.

The term "youth unemployment" refers to the share of persons aged 15 to 24 without work but available for and seeking employment.

See International Labour Organization, *LABORSTA database on labour statistics*, <<http://laborsta.ilo.org>> accessed on 25 January 2006; *Key Indicators of the Labour Market*, third edition (Geneva, ILO, 2003); and ILO website <www.ilo.org> accessed on 25 January 2006; for details.

¹ International Labour Organization, *Labour and Social Trends in Asia and the Pacific 2005* (Bangkok, ILO, Regional Office for Asia and the Pacific, 2005).

² Ibid.

is the lack of work, particularly in the vast informal sector that is sufficiently productive to yield a decent income. Creation of decent jobs is the key to making a dent in poverty.

The region must also confront high levels of unemployment among youth and the well educated. Youth unemployment in Asia stood at 38 million in 2003, almost half the world's total. This was an increase of 36 per cent over the level a decade earlier when the global increase was only 26 per cent.³ The gravity of the issue is reflected in a more than doubling of youth unemployment in the South-East Asian subregion. Meanwhile, many countries also face unemployment among the educated, reflecting a mismatch between supply and demand in the labour market.

Exploiting opportunities generated by globalization and the integration of markets and facing the associated challenges would be decisive in reshaping labour markets in order to generate productive and decent employment

Unemployment in all its dimensions is in part a reflection of the functioning of labour markets, themselves influenced by a host of factors. Chief among them are domestic labour-market policies, macroeconomic policies, the macroeconomic environment and the intensity of globalization. Success in addressing labour-market issues depends greatly on the ability to adapt to changing global socio-economic conditions. Exploiting opportunities presented by globalization and the integration of markets and dealing with associated issues through the introduction of appropriate policies would be decisive in reshaping labour markets in the region in order to generate productive employment.

How could the Asian and Pacific region rise to this challenge? The problem of jobless growth points to the need for a balanced approach. Labour-market policies need to go hand in hand with sound macroeconomic policies to generate employment. Appropriate social safety nets must be in place to support those adversely affected by policies and shocks, and opportunities for training must be provided to

meet new demands. The region's high concentration of workers at low income levels warrants the special attention of policymakers. Increasing the productivity and income of workers requires improving their employability and opportunities for skills development. Reducing youth unemployment requires educational reforms to match the skills of new entrants to the labour market with those demanded by the market.

The purpose of this chapter is to analyse various dimensions of the unemployment problem in the Asian and Pacific region and the implications for the socio-economic well-being of its people and to recommend policy measures for addressing the challenges of unemployment. The chapter is organized as follows: it starts by giving a brief account of the unemployment situation in the region and of labour market-related issues such as underemployment and child labour. This is followed by analysis of three key issues: jobless growth, the working poor and youth unemployment. It then presents policy recommendations for addressing these issues.

UNEMPLOYMENT: DISMAL PERFORMANCE RELATIVE TO OUTSTANDING ECONOMIC ACHIEVEMENTS

The rate of unemployment increased by 20-50 per cent in the last decade, with only East Asia showing some progress recently

Unemployment trends in the Asian and Pacific region indicate rather dismal performance compared with the region's outstanding economic performance.⁴ Between 1992 and 2002 the number of people unemployed rose from 4 million to 9 million in East Asia and from 5.5

³ Ibid.

⁴ The published unemployment rates in some countries may be underestimated as the rates are those that are officially registered. Such estimates may exclude most of the unemployed in the rural informal sector for logistical reasons. For example, in China there is a widening gap between officially registered unemployment at about 3 per cent and estimated unemployment at about 12 per cent. See Douglas Zhihua Zeng, "China's employment challenges and strategies after the WTO accession", World Bank Policy Research Paper 3522 (Washington, D.C., World Bank, 2005).

million to 14.6 million in South-East Asia and the Pacific. In South Asia total unemployment increased by 7 million during the same period. Between 1994 and 2004 the unemployment rate rose from 4.0 per cent to 4.8 per cent in South Asia, from 2.5 per cent to 3.6 per cent in East Asia and even more sharply from 4.1 to 6.4 per cent in South-East Asia and the Pacific, reflecting the effects of the Asian financial crisis in 1997, particularly in Indonesia (see table III.1).

cent a year in South-East Asia and the Pacific and by 2.2 per cent in South Asia owing to high birth rates, increasing (but still low) female participation in the labour force and extension of the working age. The population bulge created by higher fertility rates in the past is a major reason for the increasing labour supply and high unemployment in countries such as the Islamic Republic of Iran and Pakistan in Asia and most of the Melanesian countries in the Pacific.

Table III.1. Labour-market indicators

(Percentage)

	Labour-force participation rate	Growth rate		Unemployment rate	Change in unemployment rate	
		Labour force	Employment-to- population ratio		1994- 2004	1999- 2004
	2004	1994-2004		2004	1994- 2004	1999- 2004
East Asia	75.0	1.3	-2.3	3.6	44.0	-0.2
South-East Asia and the Pacific	70.2 ^a	2.4	-0.1	6.4	56.1	0.8
South Asia	60.0	2.2	-0.2	4.8	20.0	0.8
World	65.7	1.6	-1.0	6.1	10.9	0.0

Sources: International Labour Office, *Global Employment Trends January 2004* (Geneva, ILO, 2004); International Labour Organization, *Labour and Social Trends in Asia and the Pacific 2005* (Bangkok, ILO, Regional Office for Asia and the Pacific, 2005).

^a Refers to South-East Asia only.

Performance has been no better in the more recent past. During the past five years the rate of unemployment growth has increased in South-East Asia and the Pacific and in South Asia. Only East Asia has managed to lower the unemployment rate. Meanwhile, the youth unemployment rate remained high at about 15 per cent in South-East Asia and the Pacific, twice as high as in East Asia. Natural disasters that took place in 2004 and 2005 could have further deteriorated the unemployment situation in the region.

The high rate of labour-force growth and the slow rate of job creation are behind the continued high unemployment rate

The high rate of labour-force growth and the slow rate of job creation are behind the continued high unemployment rate. During the past decade the labour force grew by 2.4 per

Low participation rates by women have historically kept labour-force participation rates low, particularly in South Asia. For example, female labour-force participation in 2000 was 22.8 per cent in Bangladesh and 16.3 per cent in Pakistan.⁵ In Sri Lanka, the female participation rate was 36.5 per cent.⁶ The low rates

⁵ Rushidan Islam Rahman, "The dynamics of the labour market and employment in Bangladesh: a focus on gender dimensions", Employment Strategy Paper 2005/13 (Geneva, ILO, 2005). Rahman believes that the reported female unemployment rates for a country such as Bangladesh could be underestimated because women often move out of the labour force when they become unemployed for a considerable period of time, becoming "discouraged workers".

⁶ The labour-force participation rate for women in Japan, a developed country, was 48.3 per cent in 2004 compared with over 60 per cent in the United States.

could be due partly to the exclusion from the labour force of women who are engaged in household economic activity. Childbearing and childcare also play a role. The increasing participation of women in the labour force could thus result in even higher rates of unemployment in the future in some parts of the region.

The second contributory factor has been the failure of job creation to keep pace with the growth in the labour force, as reflected in the declining employment-to-population ratio. Lack of formal tenure rights to land and antipathy towards open markets and private sector development in some countries, particularly in the Pacific subregion, are undermining job creation.

The demographic changes expected over the next 50 years will have important implications for labour supply and demand and could lead to a labour-market mismatch.⁷ While in countries such as Japan the signs of the impact of an ageing population on the labour market are already being seen, in other countries and areas such as Armenia; Georgia; Hong Kong, China; Macao, China; the Russian Federation; Singapore; and Sri Lanka the process of population ageing is occurring rapidly and could have a major impact on the labour markets in the next half century. These countries and areas will experience acute shortages of labour. Countries with a more moderate speed of ageing, such as India and Indonesia, as well as those ageing slowly, such as Bangladesh and Pakistan, will still have an excess supply of labour. In these countries, unemployment will remain a challenge unless proper policy measures are taken to exploit the demographic dividend.

Sectoral composition of employment: agriculture is still the main provider

Agriculture and the informal economy remain the main employment providers despite an increasing trend towards services

The changing economic structure of the region has had both positive and negative

⁷ See ESCAP, *Economic and Social Survey of Asia and the Pacific 2005* (United Nations publication, Sales No. E.05.II.F.10) for a detailed analysis of this issue.

impacts on employment. Over the past quarter century economies have shifted from an agricultural base towards services.⁸ Reflecting this trend, the sectoral composition of employment has also changed considerably.

Agriculture's contribution to total employment in Asia declined from 82 per cent in 1950 to 62 per cent in 1990, while services and industry gained shares (see figure III.1). A similar trend is observed in the Pacific. However, in Asia agriculture still accounts for most employment. For example, despite a decline in recent years, agriculture's share in total employment, particularly in the large economies of China and India,⁹ remained at more than 50 per cent (see table III.2).

High unemployment in the rural informal economy reflects a bias towards unskilled labour in the informal economy

In some countries the rural informal economy still provides the majority of employment opportunities, although it tends to employ more men than women (see table III.3). The high concentration of employment in the rural informal economy reflects a bias towards unskilled labour, abundant in most developing countries in the region, as well as imbalances in the process of structural change.

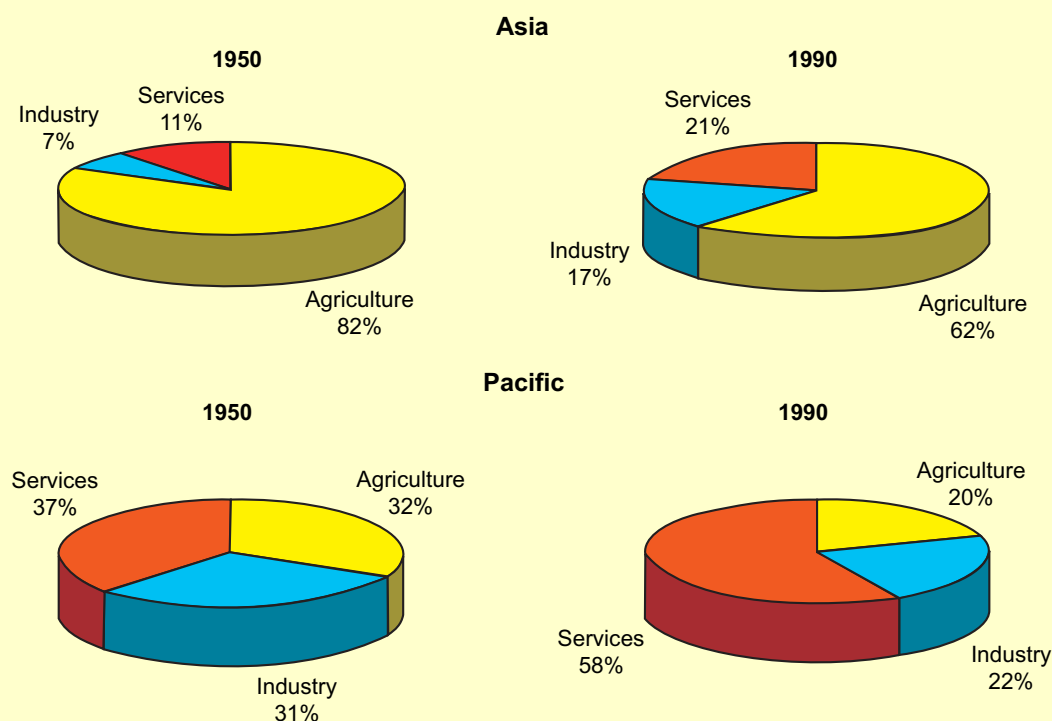
Underemployment: hidden and high

Underemployment is more widespread in the Asian and Pacific region than unemployment. Underemployment reflects voluntarily working less than full time because full-time jobs are not available, and underutilizing worker skills. Both types of underemployment directly affect the current income of workers as well as their potential future income through adverse effects on their career development prospects. In countries such

⁸ For example, the share of agriculture in GDP declined from 30 to 15 per cent in China, from 38 to 21 per cent in India, from 25 to 15 per cent in Indonesia, from 15 to 3 per cent in the Republic of Korea and from 23 to 9 per cent in Malaysia.

⁹ The share of agriculture in total employment stood at 57 per cent in India in 2000.

Figure III.1. Sectoral shares of employment in Asia and the Pacific, 1950 and 1990



Source: International Labour Organization, *World Employment Report 2004-2005* (Geneva, ILO, 2004).

Table III.2. Employment by major economic sector in selected economies, 1990 and 2003

	(Percentage)					
	Agriculture		Industry		Services	
	1990	2003	1990	2003	1990	2003
East Asia						
China	64.9	56.6 ^a	23.0	22.7 ^a	12.0	20.7 ^a
Republic of Korea	17.9	8.8	35.4	27.6	46.7	63.5
South-East Asia						
Indonesia	56.0	44.3 ^a	13.8	18.8 ^a	30.3	36.9 ^a
Malaysia	26.0	14.3	27.5	32.0	46.5	53.7
Thailand	64.0	44.9	14.0	19.8	22.0	35.3
South Asia						
Pakistan	51.2	42.1 ^a	19.8	20.8 ^a	29.0	37.1 ^a
Sri Lanka	48.6	35.6	20.9	24.3	30.5	40.1

Source: International Labour Organization, *Labour and Social Trends in Asia and the Pacific 2005* (Bangkok, ILO, Regional Office for Asia and the Pacific, 2005).

^a Data are for 2002.

Table III.3. Employment in the rural informal economy of selected Asian countries

(Percentage)

		Total	Male	Female
India	2000	51.3	53.7	40.6
Nepal	1999	64.8	64.1	60.7
Pakistan	2000	63.8	64.1	60.7
Philippines	1995	17.3	15.8	19.4

Source: International Labour Organization, *World Employment Report 2004-2005* (Geneva, ILO, 2004).

as the Philippines significant changes in the structure of production in recent years have altered employment arrangements, accelerating growth in part-time employment.

The effect of discouraged workers on the labour force could partly explain the low official unemployment rates

Data on underemployment in the region are scant and weak. They show that underemployment is low, varying from 3 per cent of the labour force in Hong Kong, China; Pakistan; and Thailand to 10 per cent in the Philippines.¹⁰ Those estimates appear to underestimate the unemployment in the region, however. The effect of discouraged workers, particularly women, on the labour force could partly explain the low unemployment rates. In many developing countries, such as Viet Nam, incomes are too low to enable people not to engage in work while they are searching for a better job, resulting in very low unemployment rates (2.3 per

¹⁰ International Labour Organization, *Key Indicators of the Labour Market* (CD-ROM), third edition (Geneva, ILO, 2003); and Ray Brooks, "Why is unemployment high in the Philippines?", IMF Working Paper 02/23 (Washington, D.C., IMF, 2002), estimates that underemployment in the Philippines is at a higher level, i.e., 17.2 per cent, for 2001.

cent in Viet Nam in 2003) but high underemployment.¹¹

Underemployment is especially high in rural areas and among women

Estimates of underemployment do not reflect the high level of working poverty and they also fail to correspond to the evidence. For example, according to the National Labour Force Survey of Indonesia, 40 per cent of the labour force was underemployed under the traditional standard (working fewer than 35 hours a week) in 1993 and 34 per cent in 2002. Even under a stricter standard, defined as "severe underemployment" (fewer than 25 hours per week), the survey identified 23 per cent of the workforce to be working too few hours.¹² The Asian financial crisis of 1997 forced a large movement of workers from manufacturing, construction and trade and services into agriculture and possibly informal sector employment at reduced wage rates.¹³ The Sri Lanka Labour Force Survey of 2004 indicated an 18 per cent share of those currently employed worked fewer than 29 hours a week.¹⁴ Both surveys suggest that underemployment is higher among women than men and in the agricultural, fisheries and forestry sector than in other sectors. In Bangladesh, despite a drop in total underemployment from 17.6 per cent in 1996 to 16.6 per cent in 2000, female underemployment rose from 45.5 per cent to

¹¹ See John Luke Gallup, "The wage labor market and inequality in Viet Nam in the 1990s", World Bank Policy Research Working Paper 2896 (Washington, D.C., World Bank, 2002); and Liesbet Steer and Markus Taussig, "A little engine that could: domestic private companies and Vietnam's pressing need for wage employment", World Bank Policy Research Working Paper 2873 (Washington, D.C., World Bank, 2002).

¹² Franck Wiebe, "Income insecurity and underemployment in Indonesia's informal sector", World Bank Policy Research Working Paper 1639 (Washington, D.C., World Bank, 1996); see also International Labour Organization, *Labour and Social Trends in Asia and the Pacific 2005* (Bangkok, ILO, Regional Office for Asia and the Pacific, 2005).

¹³ See, for example, International Labour Organization, "Indonesia employment strategy mission (26 April-7 May 1999) aide memoire" (Geneva, ILO, 1999), <www.ilo.org/public/english/region/asro/jakarta/publ/aide.htm>.

¹⁴ Department of Census and Statistics Sri Lanka, *Quarterly Report of the Sri Lanka Labour Force Survey, First Quarter 2004* (Colombo, 2004).

52.8 per cent.¹⁵ Underemployment tends to be higher in rural areas than in urban areas, reflecting the part-time nature and seasonality of work in rural areas.

Child labour: an issue of poverty

Child labour is a pervasive problem in the Asian and Pacific region, which harbours an estimated 127 million working children between the ages of 5 and 14, or 52 per cent of the world's total of 246 million.¹⁶ Child labourers often endure dangerous and unhealthy conditions at work and are exposed to lasting physical and

The answers to these two questions are as complex as the issue of child labour itself.

Poverty is the major cause of child labour

Poverty often drives parents to push their children into the workforce.¹⁷ Negative perceptions among some parents about the contributions of schooling to employability in the formal sector are also a factor. Child labour is also influenced by adult literacy (see table III.4).¹⁸ The lack of enforcement of labour restrictions also perpetuates child labour. Rapid rural-to-urban migration is a major cause of the

Table III.4. Child labour, level of income and adult literacy in selected Asian countries, 2003

	<i>Economically active children, 10-14 years old (percentage)</i>	<i>Annual per capita income (United States dollars)</i>	<i>Adult literacy rate, ages 15 and older (percentage)</i>
Afghanistan	23.5	250	—
Bangladesh	26.5	400	41.1
Cambodia	23.2	310	73.6
Lao People's Democratic Republic	24.3	320	68.7
Myanmar	22.0	220	89.7
Nepal	40.2	240	48.6
Timor-Leste	35.2	430	..

Sources: International Labour Organization, *Labour and Social Trends in Asia and the Pacific 2005* (Bangkok, ILO, Regional Office for Asia and the Pacific, 2005); United Nations Children's Fund, *The State of the World's Children 2005* (New York, UNICEF, 2004); and United Nations Development Programme, *Human Development Report 2005: International Cooperation at a Crossroads: Aid, Trade and Security in an Unequal World* (New York, Oxford University Press, 2005).

psychological harm. They are sometimes subject to physical and sexual abuse, particularly the girls. Child labour is bad not only because it exposes children to harsh and dangerous working conditions and deprives them of their childhood but also because of the long-term economic and social implications. Despite these negative attributes, why do children work instead of attend school? How should this issue be addressed?

¹⁵ Rahman, op. cit.

¹⁶ UNICEF, Child protection website, <www.unicef.org/protection>.

¹⁷ According to K.A. Syed, A. Mirza, R. Sultana and I. Rana, "Child labour: socioeconomic consequences", *Pakistan and Gulf Economist*, vol. 10, pp. 36-39 (1991), parents represent 62 per cent of the source of child induction into employment. Also see Faraaz Siddiqi and Harry Anthony Patrinos, "Child labour: issues, causes and interventions", Human Capital Development and Operations Working Paper HCOWP56 (Washington, D.C., World Bank, 1996).

¹⁸ The intergenerational transfer of low levels of education is high in poor households. Parents with little school attainment tend to rear children who also obtain little formal schooling. See Dorte Verner and Erik Alda, "Youth at risk, social exclusion, and intergeneration poverty dynamics: a new survey instrument with application to Brazil", World Bank Policy Research Working Paper 3296 (Washington, D.C., World Bank, 2004).

increasing rate of child labour in urban areas of developing countries in the region.

Disagreements and inconsistencies in policies abound. While developing countries may consider child labour a matter of survival, developed countries tend to attach concerns about child labour to issues concerning competition from developing countries in international trade. In some countries, differences exist between the minimum working age and the ages for compulsory education, so that children can be legally employed before they complete the minimum number of years required for schooling, or are forced into an inactive period after compulsory schooling ends and before the minimum working age is reached (see table III.5). Further, in many countries children in poor families may have to work in order to attend school.¹⁹

Table III.5. Compulsory education and minimum working age		
(Years)		
	<i>Education compulsory up to age</i>	<i>Minimum working age</i>
Bangladesh	10	14
Iran (Islamic Republic of)	10	15
Nepal	11	14
Sri Lanka	15	14
Thailand	15	12
Turkey	14	15

Source: V. Sinclair and G. Trah, "Child labour: national legislation on the minimum age for admission to employment or work", in *Conditions of Work Digest*, vol. 10, No.1, pp. 19-146 (Geneva, ILO, 1991).

Addressing fundamental development issues is key to solving the problem of child labour

Many countries with large shares of child labour are least developed countries. The prob-

¹⁹ For example, in Nepal 21 per cent of children 5-14 years old attend school and work outside the home.

lem of child labour is unlikely to be solved without addressing fundamental development issues.

JOBLESS GROWTH: NEGLECTING THE PEOPLE

Charges of jobless growth are being heard in some countries

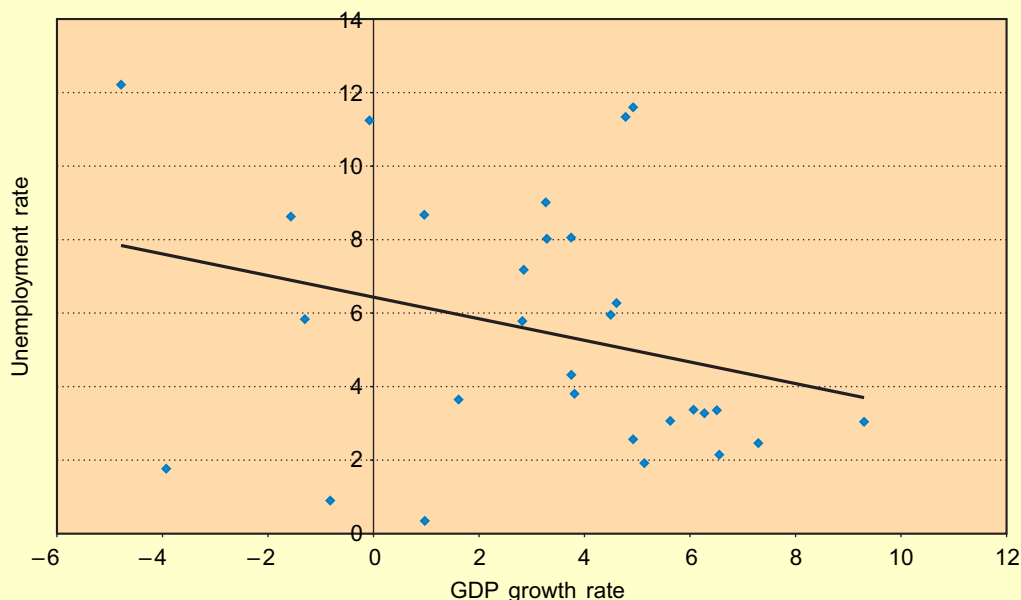
Concern is widespread that many countries in the region have achieved high levels of economic growth at the expense of adequate employment creation.²⁰ Charges of jobless growth are being heard, particularly in China and the Republic of Korea, where unemployment rates have risen recently. Does high growth lead to higher unemployment? A plot of the relationship between the average unemployment rate and GDP growth in 29 countries in the Asian and Pacific region during the period 1990-2003 shows a negative relationship, implying that economic growth leads to job creation and reduces unemployment (see figure III.2). However, further analysis indicates a weakening relationship between economic growth and employment creation.

Employment elasticities are declining, suggesting limited employment generation as a result of enhanced output growth

Globalization compels firms to be competitive and the public sector to be more efficient, leading to the diffusion of new technologies and the use of highly skilled workers. The skill bias in new production technologies and the resulting increase in productivity could induce a slowdown in job creation or even a reduction in employment, leading to jobless growth.

²⁰ See, for example, Anushree Sinha and Christopher Adam, "Reforms and informalization: what lies behind jobless growth in India", paper presented at the Expert Group on Development Issues (EGDI) – United Nations World Institute for Development Economics Research (WIDER) Conference on Unlocking Human Potential: Linking the Informal and Formal Sectors, Helsinki (2004); B.B. Bhattacharya and S. Sakthivel, *Economic Reforms and Jobless Growth in India in the 1990s* (New Delhi, Institute of Economic Growth, 2003), <<http://ieg.nic.in/worksakthi245.pdf>>; and Zeng, op. cit.

Figure III.2. Relationship between average unemployment rate and GDP growth rate for 29 countries in Asia and the Pacific, 1990-2003



Sources: International Labour Organization, *Key Indicators of the Labour Market* (CD-ROM), third edition (Geneva, ILO, 2003); LABORSTA Internet, an International Labour Office database on labour statistics, 1998-2005, <<http://laborsta.ilo.org/>> accessed on 7 September 2005; and World Bank, *World Development Indicators 2005* (CD-ROM) (Washington, D.C., World Bank, 2005).

Employment elasticities declined during the 1990s in many countries in the region, indicating that growth had resulted largely from increased labour productivity (see table III.6). Declining employment elasticities are indicative of limited employment generation as a result of enhanced output growth, as in the state of Kerala in India.²¹ India's organized sector reportedly may have lost approximately 1.3 million jobs during the post-reform period of 1995-2002, although such losses were not reflected in that country's Labour Bureau data.²²

There are many underlying reasons for high growth with low employment creation, but chief among them are the absence of an appropriate policy environment and the resulting high cost for entrepreneurs. Rigidities in labour markets, particularly strict hiring and firing

regulations, have driven firms to resort to hiring temporary labour and making more capital-intensive investments, while employment-protection legislation and labour-market policies, such as pension and health reform and minimum wages, have raised labour costs, thus depressing the demand for labour.²³

The regulatory setting in labour markets in the Asian and Pacific region is quite heterogeneous (see table III.7). While Singapore has a flexible labour market with minimal regulations, China, India, Pakistan and countries in Central

²¹ Bhattacharya and Sakthivel, op. cit.

²² Sinha and Adam, op. cit.

²³ Raquel Bernal and Mauricio Cardenas, "Determinants of labor demand in Colombia: 1976-1996", NBER Working Paper 10077 (Cambridge, Mass., National Bureau of Economic Research, 2003), <www.nber.org/papers/w10077>. Distortions have also emerged from labour-market reforms in some countries. For example, the dual minimum wage system for domestic and foreign enterprises in Viet Nam discourages labour mobility across sectors, while labour contracts introduced under the Labour Code introduced rigidities that deter job creation and reduce labour-market flexibility.

Table III.6. Employment elasticities and labour productivity in selected Asian countries, 1980s and 1990s

	<i>Elasticity</i>		<i>Productivity growth, 1980-2001 (percentage)</i>
	1980s	1990s	
Bangladesh	0.550	0.495	1.5
China	0.330	0.129	5.2
India	0.324	0.312	3.2
Indonesia	0.435	0.379	1.8
Malaysia	0.682	0.406	2.8
Thailand	0.325	0.193	3.9

Sources: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries* (Manila, ADB, 2005); International Labour Organization, *Key Indicators of the Labour Market* (CD-ROM), third edition (Geneva, ILO, 2003).

Table III.7. Extent of employment protection in selected Asian countries

	<i>Regular employment protection index</i>	<i>Rank</i>
East Asia	0.57	72
China		
South-East Asia		
Cambodia	0.39	42
Indonesia	0.41	47
Malaysia	0.30	23
Philippines	0.32	27
Singapore	0.11	1
Thailand	0.30	23
Central Asia		
Armenia	0.49	64
Azerbaijan	0.47	61
Georgia	0.50	66
Kazakhstan	0.22	12
Kyrgyzstan	0.41	47
South Asia		
Bangladesh	0.38	39
Bhutan	0.35	31
India	0.51	69
Pakistan	0.57	72

Source: World Bank, Doing Business database (2005), <www.doingbusiness.org>.

Note: The rank was derived from the World Bank's Doing Business database. The index, which was also calculated from the database for 83 countries, ranges between 0, no employment protection, and 1, the highest level of employment protection.

Asia are at the other extreme, with strict employment-protection regulations, which tend to reduce employment generation (see box III.1) and lead to higher youth unemployment and self-employment.

Productivity improvement is due mainly to the substitution of capital-intensive production technologies for labour

Although improving worker productivity is a goal in all countries, most productivity improvements have come from the substitution of capital-intensive production technologies for labour. Incentives in terms of access to duty-free import of capital, provided for the purpose of attracting capital-intensive investment, explain such productivity improvement. This has led to the mass destruction of jobs in China and other countries. Trade-offs between employment and productivity growth are common in the short run as labour adjusts and responds to structural changes in the economy. However, because of friction in the market (such as skill mismatches and differences in market regulations governing labour and products) and structural changes, such adjustments take place with a lag, resulting in short-term unemployment. This underscores the need to harmonize market regulations affecting labour and products, as well as to reduce skill mismatches and improve the efficiency of the labour market through appropriate institutional arrangements.

Box III.1. The impact of employment-protection legislation on employment generation

Employment-protection legislation can affect the equilibrium of the labour market as well as the dynamics of the market vis-à-vis the business cycle. On the positive side, such legislation could reinforce job security, thereby leading to enhanced productivity and profitability. On the negative side, very strict legislation could make firms very cautious about hiring, producing an adverse impact on job creation, wages and tenure. For example, if firing costs are prohibitive, firms may resort to hiring temporary labour. The distortionary effect on the composition of employment could lead to lower wages because temporary workers have less wage-bargaining power than permanent staff. Stricter legislation could also discourage firms from expanding or drive them to use more capital-intensive production technologies. Firms may even shift operations to countries with more market-friendly labour regulations.

Source: Gaëlle Pierre and Stefano Scarpetta, "Employment regulations through the eyes of employers: do they matter and how do firms respond to them?", World Bank Policy Research Working Paper 3463 (Washington, D.C., World Bank, 2004).

Structural reforms have improved efficiency and profitability but employment has yet to recover from the negative impact

In a globalized economy, "creative destruction"²⁴ makes the labour market dynamic and shortens the duration of unemployment. However, the insufficient rate of new enterprise growth in the region constrains job creation and employment growth. For example, the privatization of State-owned enterprises in Cambodia and Viet Nam, while apparently improving efficiency

²⁴ Creative destruction denotes a "process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one". The birth of new firms is associated with the simultaneous death of old, inefficient firms in a normal and healthy process of "creative destruction" or market selection in which the fittest firms survive the test of market competition. See, for example, Jan Rutkowski, "Why is unemployment so high in Bulgaria?", World Bank Policy Research Working Paper 3017 (Washington, D.C., World Bank, 2003).

and profitability, has led to large-scale lay-offs of labour.²⁵ In some countries, including China, employment has yet to recover from the negative impact of such measures.

Labour markets are an important channel for transmitting the effects of exogenous and policy-induced shocks on economic activity, employment, relative prices and resource allocation. How such shocks are absorbed depends on the flexibility of the labour market. Where labour markets are rigid and segmented, restricting the movement of labour (see box III.2), they function poorly in reallocating resources to cope with external and policy-induced shocks. The result is either firms loaded with unwanted workers, leading to inefficiency and bankruptcy, or the one-way movement of labour from the formal sector to the informal sector, often leading to unemployment and underemployment. In either case, the negative impact on employment creation could be long-lasting.

Trade liberalization: some employment opportunities with the right policies

Trade liberalization has a limited direct impact on employment but a blend of State intervention and market could create opportunities

Trade liberalization, supported by sound macroeconomic policies, has spurred much of the region's growth, but the direct effects on aggregate employment have been muted (see box III.3).²⁶ Trade liberalization can even have a negative impact on employment in the short run.²⁷ In countries with flexible labour markets, much of the impact of trade liberalization involves reallocating labour to other sectors,²⁸ particularly the agricultural and the informal sectors, where unemployment and underemployment

²⁵ International Labour Organization, *Labour and Social Trends in Asia and the Pacific 2005* (Bangkok, ILO, Regional Office for Asia and the Pacific, 2005).

²⁶ Bernard Hoekman and L. Alan Winters, "Trade and employment: stylized facts and research findings", World Bank Policy Research Working Paper 3676 (Washington, D.C., World Bank, 2005).

²⁷ Ibid.

²⁸ Ibid.

Box III.2. The *hukou* system and its impact on the mobility of labour in China

The central planning administrative mechanism in China required the ability to allocate human resources not only at the enterprise and sectoral levels but also across geographic locations.^a The *hukou* system of household registration was initially implemented in 1951 in Chinese cities to maintain social peace and order, safeguard people's security and protect people's freedom of residence and movement. In 1955 it was extended to rural areas as well, and in 1958 it was tightened by restricting movement from one place to another. In addition to household registration, the expanded system also reflected government policies on administrative control over the rural influx to cities and intra-rural and intra-urban movement of the population.

Household registration under the *hukou* system defines legal residence in a village, town or city at birth and determines entitlements to local jobs, housing, schooling, health care, social security and in rural areas to farming land. Although the system had helped to ensure the country's social stability and to maintain order in cities, developments in the post-reform period would question the validity of such a rigid system.^b Strict restrictions on migration and other constraints on mobility, such as geographically segmented systems for social insurance and the provision of public services, are prime causes of labour-market segmentation in China.^c The *hukou* system makes unapproved migration extremely costly in terms of lost entitlements. Even approved movement can involve substantial losses, such as loss of claims on agricultural land without compensation, making the system the greatest constraint to labour mobility.^d The *hukou* system is also considered to be a major factor contributing to rural unemployment and underemployment and to rural-urban inequality.

Despite attempts to make the *hukou* system more flexible, it continues to differentiate opportunity structures for the entire population on the basis of position within a clearly defined spatial hierarchy. Rural *hukou* holders must still pay substantially higher fees and tuition than local residents to attend schools in urban areas, while many local governments continue to encourage firms to hire local residents.^e Improvements in labour mobility could substantially increase average marginal productivity^f and ease the pressure on labour markets arising from the 80 million additions to the labour force projected for the next decade.

^a Zhiqiang Liu, "Institution and inequity: the hukou system in China", *Journal of Comparative Economics*, vol. 33, No. 1, pp. 133-157 (2005).

^b See, for example, Bao Xing, "Stemming the human tide", in *Chinadaily* (12 June 2003), <<http://app1.chinadaily.com.cn/star/2003/0612/fo5-1.html>>.

^c L. Fox and Y. Zhao, "China's labor market reform: performance and prospects", background paper for the World Bank (Washington, D.C., World Bank, 2002).

^d Douglas Zhihua Zeng, "China's employment challenges and strategies after the WTO accession", World Bank Policy Research Paper 3522 (Washington, D.C., World Bank, 2005).

^e Liu, op. cit.

^f Zeng, op. cit.

are high. In developing countries with rigid labour markets and related distortions, there is less impact on employment, as regulatory restrictions prevent labour reallocation.

Open economic policies can result in widening income disparities even though absolute income levels may rise and poverty levels may decline. For example, openness and rapid economic growth resulted in a significant reduction in poverty in China, but income equality deteriorated sharply. The ratio of urban to rural

incomes rose from 2.2 per cent in 1990 to 3.1 per cent in 2002, which is extremely high by international standards.²⁹ Between 1990 and 2001 income inequality, as measured by Gini coefficient, rose from 0.31 to 0.36 in rural areas

²⁹ F. Zhai and T. Hertel, "Impacts of the Doha Development Agenda on China: the role of labor markets and complementary education reforms", World Bank Policy Research Working Paper 3702 (Washington, D.C., World Bank, 2005).

Box III.3. Free trade and employment

The labour impacts of free trade have long been debated. The impacts include aggregate employment, trade-related wage changes and sectoral employment. Looking at the aggregate level of employment, does freer trade destroy or create jobs? The answer starts with "it depends" both on the time dimension and the part of the economy analysed. In the neoclassical school, trade policy has little to do with long-term levels of employment, which is determined by macroeconomic variables and labour market-related institutions. In a shorter time horizon, macroeconomic policy and shocks could influence the level of employment, but these effects are considered as transitory, with equilibrium prices clearing labour markets in the long run.

Of course, trade causes changes in sectoral employment. Owing to trade-triggered structural adjustments, employment will rise in activities with a comparative advantage (this is when trade creates jobs), while employment will fall in import-substituting and contracting activities (this is when trade destroys jobs). If comparative advantage is based on relative factor endowment, this implies that a country's relatively abundant factor will generate more employment opportunities. If that factor turns out to be unskilled labour, there will be no less job creation than job destruction in the short run. However, owing to the functioning of the labour market this will push up unskilled wages relative to the rewards from other factors, and all firms will be seeking less labour until wages have adjusted with full employment and with relatively higher employment in export-related activities than previously, but with little change in the total number of jobs. In the long run, the level and sectoral composition of employment is determined by population growth, education and training, and labour market-related policies and institutions.^a

In Thailand, for example, changes in the trade environment have been instrumental in causing job losses in textiles, clothing, food-processing and tourism and in job creation in health, business and other services, as well as in chemicals and other industries. Those who lose jobs in textile industries are unlikely to be the same people who gain jobs in fertilizer production. Thus, the existence of losers and winners is not short-lived, and the role of government in applying compensation and similar mechanisms has proven to be necessary to sustain trade reforms.

In addition to these direct effects on job creation and destruction in the short run through the opening of domestic and foreign markets, trade has indirect effects. Trade supplies cheaper and better suited inputs, thus influencing competitiveness. It also enables consumers to buy cheaper goods and services, increasing the purchasing power of their remaining income. When that income is used to buy more domestic goods and services or to finance investment, this can have a positive effect on jobs. Trade also tends to be linked with private investments. Flows of both physical and financial capital tend to affect the level of economic activity and jobs.

The recent literature provides even more support for the effect of trade on the number and composition of jobs even over the long term,^b probably as a result of the changed character of trade. Some stylized facts on the labour implications of trade are as follows:

- The relative reward to skilled labour has increased in both developing and developed countries, accompanied by a relative increase in skilled employment in all sectors. Inequality between skilled and unskilled labour has become a global phenomenon;
- The relative prices of labour-intensive goods produced by low-skilled and unskilled workers have not fallen by much;
- Trade and trade reforms can explain only a small fraction of the wage inequality observed globally, and skill-biased technical change is still the driving force of the worsening position of low-skilled labour;
- Labour-market institutions and the efficiency of capital markets combined with social policies determine whether employment or wages will be affected more in the aftermath of changes in trade policy;
- Wage responses overshadow employment impacts in developing countries, but they are still quite small;
- The adjustment burden is felt most at the firm level: less efficient firms are forced to downsize, improve efficiency or go bankrupt. Overall, total factor productivity increases more in markets that liberalize more;
- It is difficult to identify the direct impact of trade liberalization on aggregate employment in the long run; the view of "no change" still prevails in most cases.

^a Ben S. Bernanke, "Trade and jobs," remarks at the Distinguished Speaker Series, Fuqua School of Business, Duke University (Durham, N.C., 30 March 2004), <www.federalreserve.gov/boarddocs/speeches/2004/20040330/default.htm>.

^b Bernard Hoekman and L. Alan Winters, "Trade and employment: stylized facts and research findings", World Bank Policy Research Working Paper 3676 (Washington, D.C., World Bank, 2005).

and from 0.23 to 0.32 in urban areas.³⁰ Employment grew just 1 per cent annually during the period, while officially registered unemployment increased from 2.5 per cent to 3.1 per cent and estimated unemployment rose from 4.2 per cent to 11.5 per cent.³¹

The story is entirely different in Malaysia. Unemployment fell sharply when trade liberalization was at its peak. How did Malaysia swim against the tide? Malaysia's success in stimulating employment growth through trade liberalization provides evidence of the importance of a balanced approach to growth and employment generation, particularly in small economies.³² While trade liberalization together with active encouragement of foreign direct investment led to rapid employment creation, the Government also provided a supportive environment by enhancing the quality of human resources.³³ The Malaysian experience shows the success of an interaction between the State and the market in a mutually dependent and supportive environment.

Whether the Doha round brings tangible benefits to the region will depend to a large extent on how the critical issues of access to developed-country markets, rules of origin and non-tariff barriers are addressed

Trade reforms under the Doha round of trade negotiations could bring tangible benefits to the region in terms of enhanced opportunities for trade, business and employment, under the right conditions. These depend to a large extent on how the critical issues of access to developed-country markets, rules of origin and

non-tariff barriers are addressed. The fact that 90 per cent of the global gains from agricultural liberalization come from improved market access highlights the importance of access to developed-country markets in reaping the benefits of trade liberalization by agriculture-dependent developing countries in the region. The above analysis indicates that the region's high growth adds little to adequate job creation. The main reason behind this appears to be the substitution of capital-intensive production technologies for labour which has been intensified by rigid labour-market regulations. While the productivity improvement and the resulting gain in income for the already employed is a welcome development, Governments need to create more jobs for the unemployed. A combination of policies including a refocus on areas where labour is concentrated, changing the incentive structure for capital and labour inputs and enhanced human resource development would be needed to address the problem of jobless growth.

THE WORKING POOR: BARELY SURVIVING

The majority of workers earn too little. Some parts of the region are no better off than sub-Saharan Africa

The most pressing labour-market issue in the region is people's inability to make a decent income from employment. Although official unemployment is relatively low and declining in some countries, a large share of the employed comprise the "working poor", defined as those earning less than \$2 a day in terms of purchasing power parity (PPP). In South Asia the working poor accounted for 88 per cent of the total number of those employed in 2003, almost as high as in sub-Saharan Africa, at 89 per cent. The share was 59 per cent in the South-East Asian subregion and 49 per cent in East Asia. This is in sharp contrast to the dramatic decline in the share of the working poor earning less than \$1 a day during the past two decades; in East Asia the share declined by 76 per cent from 1980 to 2003, in South-East Asia by 70 per cent and in South Asia by 41 per cent (see table III.8).

³⁰ Ajit K. Ghose, "Employment in China: recent trends and future challenges", Employment Strategy Paper 2005/14 (Geneva, ILO, 2005), <www.ilo.org/public/english/employment/strat/download/esp2005-14.pdf>.

³¹ Zeng, op. cit.

³² R. Rasiah, "Manufactured exports, employment, skills, and wages in Malaysia", Employment Paper 2002/35 (Geneva, ILO, 2002).

³³ It should be noted that Malaysia promoted foreign direct investment even though its savings rate was high enough to meet domestic investment needs.

Table III.8. Shares of the working poor in total employment

	(Percentage)					
	<i>Less than \$1 (PPP) a day</i>			<i>Less than \$2 (PPP) a day</i>		
	1980	1990	2003	1980	1990	2003
East Asia	71.1	35.9	17.0	92.0	79.1	49.2
South-East Asia	37.6	19.9	11.3	73.4	69.1	58.8
South Asia	64.7	53.0	38.1	95.5	93.1	87.5
World	40.3	27.5	19.7	59.8	57.2	49.7

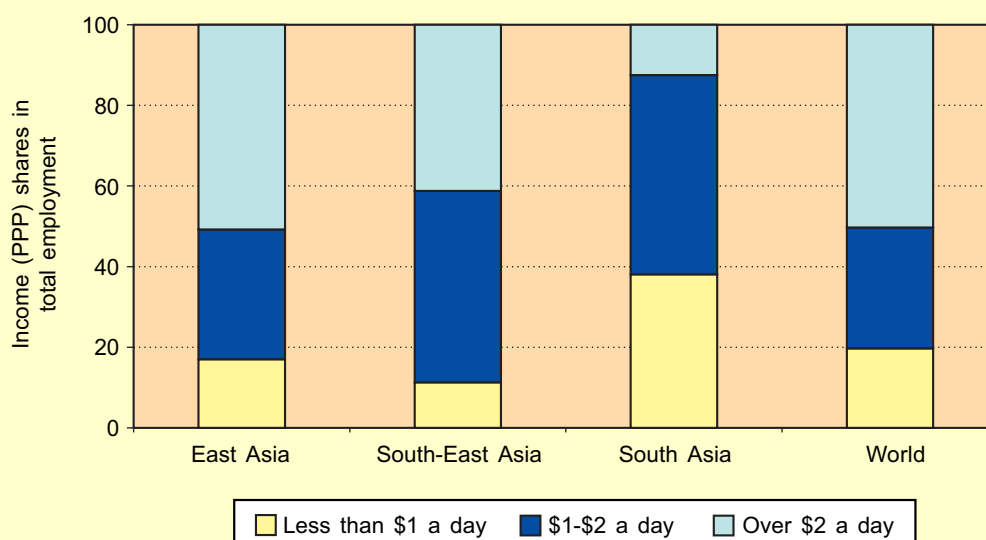
Source: International Labour Organization, *Labour and Social Trends in Asia and the Pacific 2005* (Bangkok, ILO, Regional Office for Asia and the Pacific, 2005).

The likelihood that internal and external shocks will push the working poor into extreme poverty is very high

Two issues emerge from this evidence. First, despite rapid economic growth and poverty reduction, the vast majority of the employed are earning wages that are just above the \$1 a day

poverty line (see figure III.3). As a result, the likelihood that internal and external shocks will push the working poor into extreme poverty is very high. Second, the large employment opportunities created in the region are apparently ones of low productivity, providing low incomes and wages. Most of these low-productivity employment opportunities are in the informal sector.

Figure III.3. Income shares in total employment by Asian subregion and world in 2003



Source: Derived from International Labour Organization, *Labour and Social Trends in Asia and the Pacific 2005* (Bangkok, ILO, Regional Office for Asia and the Pacific, 2005).

In some cases such results are policy-induced. For example, labour-market reforms may entail a trade-off between unemployment and poverty through their impact on wages and labour demand. Fiscal incentives for job creation, for instance, may have a direct beneficial impact on employment but be skewed towards low-paying jobs, translating into both lower unemployment and higher poverty.³⁴

Internal migration plays an important role in reshaping labour-market conditions in developing countries. Rural to urban migration is increasing in almost all countries as workers search for employment opportunities. However, such internal migration has contributed to high levels of underemployment and thus the "working poor" as a result of the limited opportunities available, and most migrants end up in low-paying jobs.

Small and medium-sized enterprises and employment

Small and medium-sized enterprises create employment opportunities and help to reduce poverty

One particular area where the working poor are concentrated could be the small and medium-sized enterprises, particularly in the informal sector. Such firms account for more than 60 per cent of formal sector employment in most developing countries in the region (table III.9). More than 86 per cent of the labour force is employed in such enterprises in Thailand and more than 70 per cent in the Republic of Korea and in Viet Nam.³⁵ As such, small and medium-sized enterprises could play a critical role in employment creation in both formal and informal economies in the region.³⁶ Their ease of start-

Table III.9. Share in employment and GDP of small and medium-sized enterprises in selected countries: average 1990-1999

	Share in formal sector employment (percentage)	Share in GDP (percentage)
Philippines	66.00	31.50
Republic of Korea	76.25	45.90
Thailand	86.70	—
Turkey	61.10	27.30
Viet Nam	74.20	24.00

Source: Meghana Ayyagari, Thorsten Beck and Asli Demirgüç-Kunt, "Small and medium enterprises across the globe", World Bank Policy Research Working Paper 3127 (Washington, D.C., World Bank, 2003).

up and primary reliance on unskilled labour make them an ideal instrument for job creation and growth. In addition to creating jobs and reducing poverty, small and medium-sized enterprises could contribute to equitable economic growth and innovation.

The survival rate of small and medium-sized enterprises is low, as a host of factors impede their transformation into formal enterprises

Small and medium-sized enterprises are also common in the informal economy in most developing countries in the region, where employment growth often comes at the expense of productivity growth.³⁷ As a result, substantial underemployment is common in small and medium-sized enterprises in the informal economy, as reflected in low wages, low value added and their high "mortality" rates. For example, in Sri Lanka the value added per worker in small and medium-sized enterprises is about one third that in larger firms, and the survival rate after five years in operation is only 5 per cent.³⁸ A survey of small

³⁴ See, for example, Pierre-Richard Agénor, "Unemployment-poverty trade-offs", World Bank Policy Research Working Paper 3297 (Washington, D.C., World Bank, 2004).

³⁵ Meghana Ayyagari, Thorsten Beck and Asli Demirgüç-Kunt, "Small and medium enterprises across the globe: a new database", World Bank Policy Research Working Paper 3127 (Washington, D.C., World Bank, 2003).

³⁶ International Labour Organization, *World Employment Report 2004-2005* (Geneva, ILO, 2004); Ayyagari, Beck and Demirgüç-Kunt, op. cit., find a strong positive correlation between small and medium-sized enterprises (with a minimum of 250 employees) and employment creation for a sample of developed and developing economies.

³⁷ Ibid.

³⁸ Peter Richards in collaboration with Junko Ishikawa and Martina Lubyova, "Towards an employment strategy framework for Sri Lanka", Employment Paper (draft, EP40) (Geneva, ILO, 2002).

and medium-sized enterprises in Sri Lanka shed light on some of the factors behind their failure.³⁹ These include poor-quality products, lack of skill training, inappropriate government policies, lack of markets and financial facilities, difficulties in finding raw materials, high cost of finance, poor management and strong competition. Limited access to technology and services and weak entrepreneurial skills constrain the growth of small and medium-sized enterprises. In addition, the high cost of entry, the strict and time-consuming regulatory environment and rigid labour-market regulations tend to impede the transformation to formal enterprises. Providing opportunities for employment with adequate wages and income through productivity improvement and capacity-building would be key to reducing working poverty in the region. In this regard, addressing issues hampering this sector is vital for small and medium-sized enterprises to be used as a vehicle for job creation.

YOUTH UNEMPLOYMENT: BRAINS DRAINED AND WASTED

A troubling characteristic of unemployment in the region is its concentration among youth (ages 15-24). While overall unemployment in the region was about 4.4 per cent in 2004, youth unemployment ranged from 7.5 per cent in East Asia to 17.1 per cent in South-East Asia (see table III.10). South Asia has the largest population of unemployed youth, at almost 14.5 million in 2004.

The crux of youth unemployment is primarily the lack of adequate job creation to absorb the new entrants to the labour market

In most of the Pacific island countries, and Indonesia, the Philippines and Sri Lanka in particular, 25 per cent or more of the youth population is unemployed.⁴⁰ The ratio of youth

to adult unemployment rates was as high as 11.9 in Bangladesh in 2000 and 6.3 in Sri Lanka in 2003. Youth account for more than half the total unemployment in Asian developing countries.⁴¹

Multiple causes

While demographic changes are partly responsible for the rapid increase in youth unemployment, the crux of the issue is primarily the lack of adequate job creation to absorb the new youth entrants to the labour market. This is manifested by the high proportions of young people among the unemployed in countries such as Bangladesh and Sri Lanka. The youth unemployment rate tends to be lower in countries with high average incomes. Youth unemployment also reflects a gender dimension, with women accounting for a larger share of the unemployed, except in East Asia because its dominant economy, China, enjoys greater gender equality.

Youth unemployment is affected by both demand and supply issues. Available jobs are not well paid and are unattractive, particularly for educated youth. Low levels of technology use have led to weak demand for better educated youth, resulting in unemployment in skilled categories. The type of education possessed by most youth is a poor match for most jobs.

Youth unemployment deprives young people of the opportunity to participate in the economic, social and political life of society

Youth unemployment is an enormous waste of human resources much needed for economic and social development. It deprives young people of the opportunity to participate

³⁹ Ibid.

⁴⁰ International Labour Organization, *Labour and Social Trends in Asia and the Pacific 2005* (Bangkok, ILO, Regional Office for Asia and the Pacific, 2005). For example, the youth unemployment rate is estimated to be 62.6 per cent for Marshall Islands (1999), 46 per cent for Solomon Islands (1999), 35.2 per cent for the Federated States of Micronesia, 31.2 per cent for Tuvalu (2002) and 30.3 per cent for Tonga (1996). In Papua New Guinea each year about 50,000 youth reach working age, but only 5,000 find jobs.

⁴¹ International Labour Organization, *Labour and Social Trends in Asia and the Pacific 2005* (Bangkok, ILO, Regional Office for Asia and the Pacific, 2005). This is also relevant for developed countries such as Japan where the male youth unemployment rate was as high as 10.9 per cent in 2004

Table III.10. Youth unemployment by subregion and world, 2004

(Percentage)

	Youth unemployment rate		Youth to adult unemployment ratio		Youth unemployment rate by sex	
	1994	2004	1994	2004	Male	Female
					2004	2004
East Asia	6.5	7.5	2.8	2.7	8.1	5.8
South-East Asia and the Pacific	9.0 ^a	17.1 ^a	4.8	5.6 ^a	13.9	15.8
South Asia	8.7	10.8	3.8	3.7	10.6	11.6
World		13.1			13.2	12.9

Sources: International Labour Organization, *Global Employment Trends for Youth 2004* (Geneva, ILO, 2004); International Labour Organization, *Labour and Social Trends in Asia and the Pacific 2005* (Bangkok, ILO, Regional Office for Asia and the Pacific, 2005).

^a Refers to South-East Asia only.

in the economic, social and political life of society and to secure resources for a decent living and social protection, including pensions and accommodations for the establishment of families.

In countries with formal social protection systems that provide unemployment insurance or welfare assistance, youth unemployment represents an enormous burden on limited public resources. In countries without such systems, the burden is shouldered by families that have forgone income and invested in the education of their children only to find themselves continuing to provide support to their grown children.⁴² Especially in families with limited resources, youth unemployment may lead to negative behaviour, marginalization and social exclusion.

Lacking opportunities in the formal labour market, young people are turning to low-paying jobs or self-employment in the informal sector, often working in hazardous conditions without proper protection and with poor prospects for the future. A combination of these factors can lead

to frustration, disillusionment, marginalization and alienation. Evidence suggests that the social exclusion resulting from youth unemployment has adverse social repercussions in terms of youth violence, delinquency, substance abuse, prostitution and heightened attraction to illegal activities.⁴³ A poor economic and social environment provides fertile ground for recruiting youth (or forcing them) into armed conflict. The chances of unemployed youth becoming involved in violence, delinquency and substance abuse and other illegal activities are high.

Young people also make up a significant share of the 175 million global migrants, adding to the brain drain.⁴⁴ Halving the level of youth unemployment in South-East Asia and South

⁴² Secretary-General of the United Nations, "Global analysis and evaluation of national action plans on youth employment: report of the Secretary-General" (A/60/133, July 2005).

⁴³ For example, frustration over jobs contributed to two violent uprisings by educated youth in Sri Lanka in 1971 and in the period 1987-1989; see Martin Rama, "The Sri Lankan unemployment problem revisited", World Bank Policy Research Working Paper 2227 (Washington, D.C., World Bank, 1999). Unemployed youth have been key contributors to civil unrest in Fiji and Solomon Islands and to the rising crime rate in Papua New Guinea. Teenage pregnancy and prostitution are reportedly on the rise, particularly in Fiji, Kiribati, Papua New Guinea, Solomon Islands and Vanuatu.

⁴⁴ United Nations, *World Youth Report 2005* (United Nations publication, Sales No. E.05.IV.6); United Nations, *Trends in Total Migrant Stock: The 2003 Revision* (POP/DB/MIG/Rev. 2003).

Asia could generate GDP gains of about 4-7 per cent.⁴⁵

Unemployment among educated youth

Although unemployment usually falls, often dramatically, with the level of a person's education,⁴⁶ the relationship between the two is complex, depending on many factors including a country's level of economic development (see table III.11).

countries unemployment is concentrated mostly among the abundant low-skilled and uneducated categories of the working-age population. For example, in Bangladesh and Indonesia the unemployment rate is high among youth with only a primary education. In Bhutan, unemployment is concentrated among young school drop-outs.⁴⁷ In relatively better-off and technologically more advanced economies, such as Macao, China; and Thailand, unemployment also tends to be concentrated among youth with a primary or lower level of education, as the demand is mostly for educated and skilled workers.

Table III.11. Share of total unemployment by education level in selected economies in 2000

(Percentage)

	Primary education	Secondary education	Tertiary education
Bangladesh	54.3	22.7	8.4
Indonesia	45.5	43.8	7.9
Macao, China	65.5	11.3	6.3
Republic of Korea	26.1	51.0	49.9
Thailand	70.6	7.2	19.2
Azerbaijan	4.8	34.2	61.1
Georgia	5.5	33.1	61.4
Sri Lanka	49.7	.. ^a	49.9

Source: World Bank, *World Development Indicators 2005* (CD-ROM) (Washington, D.C., World Bank, 2005).

^a Data for share of employment with secondary education in Sri Lanka were not available owing to inconsistencies in classification of education level.

Economic growth and education are keys to reducing youth unemployment

Countries where levels of economic development and overall human development are low seem to experience low levels of unemployment among educated youth because the demand for educated workers is high. In these

Unemployment among educated youth is extraordinarily high where economies are in transition or where economic development does not keep pace with rapid increases in educational attainment

In contrast, unemployment among educated youth is extraordinarily high where economies are in transition or where economic

⁴⁵ International Labour Organization, *World Employment Report 2004-2005* (Geneva, ILO, 2004).

⁴⁶ This is true for developing and developed countries; see Niall O'Higgins, "The challenge of youth unemployment", *Employment and Training Papers 7* (Geneva, ILO, 1997).

⁴⁷ The mismatch between skills and job requirements is evident from the high number of foreign workers in Bhutan, estimated at about 50,000, employed largely as skilled labourers in the construction sector.

development does not keep pace with rapid increases in educational attainment. In such economies unemployment among educated youth could threaten social stability. Governments' sensitivity to that possibility is reflected in the occasional and apparently arbitrary recruitment of educated youth for public sector employment⁴⁸. Economies in transition such as Azerbaijan and Georgia have yet to exploit their educated labour force for development because of a lack of adequate demand and because of a mismatch of skills.

Unemployment among educated youth tends to reflect a search for "good" jobs and a rejection of job opportunities perceived to be "bad" according to social or cultural norms.⁴⁹ In Sri Lanka the probability of being unemployed is much higher among those with a university or post-graduate degree.⁵⁰ The share of the unemployed with 13 years or more of schooling increased from 15.4 per cent in 1990 to 29.0 per cent in 2003. In the Philippines the incidence of unemployment also tends to increase with the number of years of education.

Country experiences also show a higher concentration of unemployment among educated youth in rural areas than in urban areas. In Sri Lanka unemployment among university graduates was twice as high in rural areas (11.8 per cent) as in urban areas in 1998.⁵¹ The problem of youth unemployment in Sri Lanka reflects the slow progress in moving to a higher growth path that demands higher levels of education and skills. While Sri Lanka's educational achievement is on a par with that in most middle-income

countries, its economy is stuck in a production base with low value added, focusing mainly on primary products and low-end manufacturing.

POLICY RESPONSES: BALANCED APPROACH AND REFOCUSED ACTION

Economic growth is a necessary condition for sustainable employment generation. However, growth alone will not create employment. State interventions are also required to ensure that growth is broad based and that the benefits are passed on to the poor through employment. Governments can facilitate this process by implementing policies within a comprehensive programme of reforms. Such policy measures and reforms should target improving the macroeconomic environment, labour market-related issues and institutional development. Some policy proposals that could help to address unemployment are elaborated below.

Improving the macroeconomic environment

Sound macroeconomic policies

Unemployment has to be considered in the context of the macroeconomic environment for tangible and sustained reduction in unemployment

Unemployment has to be considered in the context of the overall macroeconomic environment if tangible and sustained reduction of unemployment is to be achieved. Labour-market policies by themselves cannot generate employment. A sufficient pull from the demand side is also necessary. Sound macroeconomic policies, a strong macroeconomic environment and a solid development agenda are imperative for the creation of adequate jobs. It is only when the government's fiscal position is strong that it can ensure the provision of basic services and safety nets to the poor and unemployed. A sound fiscal policy also stimulates private sector involvement in the development process, thereby generating employment by minimizing the crowding out of private investment. Monetary policy needs to

⁴⁸ Richards in collaboration with Ishikawa and Lubyova, op. cit.

⁴⁹ More than 15,000 vacancies existed in firms located in export processing zones in Sri Lanka, mainly in the garment industry, while there was excess demand for low-paying public sector employment in Sri Lanka; see Rama, op. cit.

⁵⁰ Richards in collaboration with Ishikawa and Lubyova, op. cit.

⁵¹ Sri Lanka Department of National Planning, *Employment and Unemployment of Youth in Sri Lanka* (Colombo, 2002), <www.ilo.wg/public/english/region/asro/Colombo/download/ptlppro2.pdf>.

ensure low inflation, which could help to sustain real income, particularly of the poor, but also a real interest rate sufficient to induce savings. Macroeconomic policies need to accommodate wage-moderation policies to make room for private sector engagement in economic activities.

Trade liberalization

Benefiting from trade liberalization would require improving absorptive capacity and the stock of human capital

Although trade liberalization may not result in significant employment generation directly, in the long run country experiences point to the importance of trade liberalization for stimulating employment creation.⁵² Specialization in areas of comparative advantage is vital for sustainability in a competitive world. Benefiting from trade liberalization requires improving absorptive capacity. The stock of human capital plays a key role. Providing a supportive environment, through domestic reforms and greater access to global markets, is also required if an economy is to benefit from trade liberalization. Adequate protection, through social safety nets, capacity-building and opportunities for training, is also needed for those who lose out because of trade liberalization.

Addressing labour-related issues

Labour-market policies need to improve flexibility and reduce costs

Improving the functioning of the labour market by increasing flexibility and reducing costs is vital for employment creation. Segmented labour markets contribute to persistent wage differentials that impede the resource allocation needed to respond to external and policy-induced shocks.

⁵² For example, increasing openness lay behind much of the decline in the natural rate of unemployment in Singapore; see Hiau Looi Kee and Hian Teck Hoon, "Trade, capital accumulation and structural unemployment: an empirical study of the Singapore economy", *Journal of Development Economics*, vol. 77, No. 1, pp. 125-152 (2005).

More flexible labour markets would benefit both employers and employees

Labour-market flexibility is a key determinant of the success of economic reforms.⁵³ Long spells of unemployment signal a stagnant labour market, with limited chances of escaping unemployment. Contributing factors are the difficulty of moving from one job to another because of firm-specific training, strict regulations controlling firing and the non-transferability of pension benefits. Firm-specific training highlights the need for minimum standards of educational attainment and technical skills. Strict firing regulations, which lead to the retention of unwanted employees, could be resolved by relaxing hiring and firing regulations, while providing relatively strong income protection for laid-off workers at the societal level. The non-transferability of pension benefits could be addressed by introducing contributory pension and retirement schemes.

High labour-market costs impede the evolution of the private sector as a major force for employment generation, and the pay-off from reducing labour costs is substantial

Reducing labour-market costs is another important reform. High labour-market costs impede the evolution of the private sector as a major force for employment generation in both the formal and informal sectors, eroding the competitive edge of developing countries and constraining businesses expansion. The pay-off from reducing labour costs could thus be substantial.⁵⁴ The main reason that so many small

⁵³ Alvaro Forteza and Martin Rama, "Labour market 'rigidity' and the success of economic reforms across more than 100 countries", World Bank Policy Research Working Paper 2521 (Washington, D.C., World Bank, 2001).

⁵⁴ In Sri Lanka, for example, high labour-market costs, with no compensatory increases in labour productivity, pose a risk for loss of competitiveness to countries such as China and Viet Nam in industries with a high labour-to-capital ratio. The Termination of Employment of Workmen Act of 1971 imposes strict restrictions on firing employees. Employers are likely to try to circumvent its provisions through contracting and subcontracting and by rotating workers to keep them as probationers. High payroll taxes are another barrier to employment creation. Estimates indicate that elimination of the 9 per cent payroll tax in Colombia could result in a 13 per cent increase in employment in urban areas; see Bernal and Cardenas, op. cit.

and medium-sized enterprises remain in the informal sector is the high cost of entry and the strict regulatory environment in the formal sector. Reducing such costs is vital if the private sector is to contribute meaningfully to employment generation. Viet Nam's new law on enterprises aimed at reducing the financial and time costs of registering companies could be an example for other developing countries in the region.

Active labour-market policies

Structural issues are behind the high unemployment and underemployment rates in many developing countries in the region, primarily on the supply side. These structural problems should be addressed in the medium to long term and should focus on improving access to labour markets, job-related skills development and better functioning of labour markets. While some short-term measures may also be necessary, short-term measures such as those curtailing the labour supply, which are self-defeating in the long-term, should be avoided.

Developing human capital

Educational reforms

While low levels of education are a major cause of high unemployment in countries with low literacy rates, a mismatch between education and the skills demanded by the private sector is a concern in some countries with a higher level of educational attainment. Workers with more than a primary education appear to perform better in on-the-job training, skills-testing and evaluation; thus, they have better job prospects. Raising the age of compulsory education could provide the additional benefit of helping to reduce child labour.

It is not just the amount of education that matters but also the quality

Education and technical skills are vital to the employability of workers. While many countries in the region boast of high educational attainment, the quality of education and skills is crucial and so is the content of that learning. In many economies in transition there is a mismatch between educational content provided under planned economic systems and the skills demanded by a market economy, and those economies are lagging behind.

In a globalized economy technical knowledge needs to be adjusted to market demand and changing circumstances. Thus, while basic education remains a fundamental necessity, reforms in secondary and tertiary education to suit the changing demand would minimize the skills mismatch. The introduction of information technology and international languages for communication and technology-oriented subjects in the curricula is essential for equipping new entrants to the labour market with the necessary basic skills.

Countries where female unemployment is high or the female labour-force participation rate is low may need to take special steps to break this cycle. Education may need to provide a more conducive socio-cultural environment to encourage girls and women to attend school and to improve productivity through skills development.

Training programmes are most effective when they are tightly targeted and small-scale, with a strong on-the-job component and linked to industry

Vocational training

Many countries have vocational training programmes to enhance the employability of youth. Despite high returns to vocational training generally,⁵⁵ in many developing countries of the region vocational training does not seem to provide the required technical and practical exposure. Reasons include a lack of recent industrial exposure by trainers, lack of regular technical and pedagogical upgrading and the absence of professionalism in curriculum development. Training programmes are most effective when they are tightly targeted and small-scale, with a strong on-the-job component and linked to industry.⁵⁶

⁵⁵ For example, Martina Lubyova, "Technical appendix", in Richards in collaboration with Ishikawa and Lubyova, op. cit., found that returns from a year of vocational training are substantial and nearly as high as those from a year of education at grade 10 or higher.

⁵⁶ For example, higher technical and professional education has played a significant role in economic and technical development in India by producing a good quality workforce through strong links between technical institutions and industry.

Initiatives by China, the Republic of Korea and Singapore are noteworthy. The Government of Singapore works with educational institutions to improve employment opportunities for youth through internships and apprenticeships that provide tangible work experience. Some programmes establish formal training agreements with employers while others subsidize enterprises that hire youth.

To improve the employability of migrant workers and their quality of life, the Government of China's "National migrant worker training plan" for the period 2003-2010 will offer vocational training to 60 million rural labourers who want to move into cities. Other programmes to train highly skilled labour and improve the employability and transition of the labour force include the "Programme for strengthening vocational training and improving employability" and the "National training project for highly skilled human resources", introduced in 2002, and the "Programme for training 500,000 new technicians in three years".

The Republic of Korea encourages industries and universities to work together to meet the future demand for skills. Universities that establish new departments to meet industrial needs through contracts with companies are eligible for governmental financial support for facilities and research costs. A system has been established to evaluate whether college curricula meet industrial demands. Policy measures are devised to encourage employers to expand investments in youth employment and to use human resources more effectively.

Facilitating labour-market entry

Attitudes need to be changed before they become hardened and aspirations become set

Timely intervention in enhancing the employability of youth

Interventions to enhance the employability of youth should be a key component of active labour-market policies and education reforms (see box III.4). Such programmes need to target youth early, before attitudes harden and aspirations are set.

Box III.4. Youth Employment Network

The Youth Employment Network, established in 2001 by ILO, acts as a vehicle to address the global challenge of youth employment. The initiative brings together policymakers, employers, workers and young people to pool their skills, experience and knowledge and find innovative and durable solutions to the youth employment challenge. It encourages countries to establish action plans with a priority focus on four policy areas: employability, equal opportunities, entrepreneurship and employment creation. Four countries in the Asian and Pacific region, Azerbaijan, Indonesia, the Islamic Republic of Iran and Sri Lanka, are among the 16 "lead countries" that are committed to preparing and implementing action plans for youth employment.

Several of the countries have already taken steps in that direction. The Azerbaijan National Action Plan on Youth Employment is an integral part of its overall National Action Plan on Employment. The Indonesian National Action Plan on Youth Employment develops an institutional framework for the Indonesian Youth Employment Network while raising awareness of the challenges faced by youth labour-market entrants. Sri Lanka has set up the Youth Employment Network to develop an integrated national action plan on youth employment, with a focus on reintegrating youthful former combatants into the workforce.

Career guidance and counselling

Career guidance and counselling can help to steer youth towards a career path that matches their interests and skills. This could also help to avert the anxiety and frustration that can arise from prolonged job searches and unemployment.

The provision of labour-market information could minimize the coexistence of job vacancies and skilled unemployed youth

Improving labour-market information

Timely, reliable and accurate labour-market information is essential for making policy decisions and is an integral part of corporate decision-making, particularly for business expansion. In addition, lack of access to labour-market

information can lead to the coexistence of unfilled vacancies and unemployed youth with the skills needed to fill those vacancies. Improving labour-market information would not only help to fill the information gap between young job-seekers and employers but would also help in planning training systems in line with changing market demands.

Facilitating job searches

In some countries the bulk of unemployment among youth arises as a result of a prolonged search for work. This is particularly the case in countries with high levels of educational achievement, strong family structures or unemployment benefit schemes that support extended job searches. Individual job searches are less efficient and more costly than institutional arrangements organized by the State or the private sector. The Australian Job Network is a good example of institutional job-matching, job-search training and intensive assistance, reflecting individually tailored training, enterprise incentives and project-contracting.

Creating employment opportunities

Public works programmes and means-tested income transfers are the most commonly used strategies for creating employment, particularly in rural areas. However, poor targeting has made public works programmes ineffective in most cases. High opportunity costs and disruptions to traditional sources of earning are among the drawbacks of such programmes. Public works programmes could be made effective by making them self-targeting and more flexible.

Among active labour-market policies, direct subsidies for job creation appear to be the most effective in generating employment

Empirical research finds that direct subsidies for job creation are the most effective of the active labour-market policies in raising employment rates.⁵⁷ However, their cost is high and they are likely to yield diminishing returns as employment rates rise. Action is also required

to ensure that such opportunities are open equally to both sexes.⁵⁸

Country experiences provide some practical lessons. Pakistan has introduced schemes involving youth groups in labour-intensive activities. The Republic of Korea focuses on highly educated yet unemployed university graduates while recognizing that a sustainable impact must be based on an economic recovery centred on job creation. Azerbaijan identified three major strategies for job creation: providing active labour-market programmes such as public works and wage subsidies, exploiting oil sector revenues to finance employment-intensive public works and promoting a conducive environment for small and medium-sized enterprises. Indonesia seeks to exploit opportunities in emerging sectors such as tourism, mass media, health and education, environmental conservation, services and information and communications technologies. The Government also supports agro-industries to strengthen urban-rural linkages, which are critical for job creation and poverty reduction. It also seeks to mainstream youth employment issues into local economic development initiatives.

Wage and employment policy

Credible reform of public sector recruitment and wage policies could arrest high unemployment by reducing incentives for people to queue for public sector jobs

To the extent that unemployment arises from prolonged searching for “good” jobs, credible reform of public sector recruitment and wage policies could arrest high unemployment by reducing incentives for people to queue for public sector jobs. Removing the artificial benefits associated with public sector jobs and creating the conditions for sustained improvements in the quality of other jobs would help to bring about important attitudinal changes. Less stringent regulations on firing workers enforced more evenly

⁵⁷ Estevao, op. cit.

⁵⁸ The Russian Federation targets young women who are socially vulnerable and might face difficulties in the labour market; these include single mothers, women with disabilities and women released from penal institutions.

across firms and sectors would also reduce the wedge between “good” and “bad” jobs.

Unemployment benefit systems

Unemployment benefit schemes would provide a safety net for workers and facilitate flexible employment adjustment by firms in times of shock and structural change

Unemployment benefit schemes provide two important services. First, they serve as a safety net for workers during short spells of unemployment, enabling them to search for jobs or train for new ones. Second, they facilitate flexible employment adjustment by firms during times of shock and structural change. To be more effective, unemployment benefit schemes should be linked to job skills development, as in the Republic of Korea (see box III.5). Where cash transfers are involved, work instead of aid could also be considered for making efficient use of social assistance and to reduce the fiscal burden of unemployment benefit schemes.

Focus on niche industries and sectors where labour is concentrated

Developing countries in the region could benefit from the commercialization and industrialization of agriculture

In many countries in the region that experienced high economic growth but low labour absorption, skill-based technical change has become prominent in the production process while the traditional sectors have been neglected. Balancing high growth and employment creation requires improving the productivity of workers in niche industries while focusing on sectors where the majority of labour is concentrated. For example, a study by the International Center for Peace and Development indicates that the most cost-effective and affordable strategy for India is to aim for full employment through commercialization and industrialization of the agricultural sector, which has the potential to create 100 million new jobs.⁵⁹ In this regard, a reassessment of fiscal incentives for investment in capital

Box III.5. Employment insurance system in the Republic of Korea

The compulsory and contributory employment insurance system in the Republic of Korea is more than an unemployment insurance scheme. While providing the traditional cash benefits to the unemployed, the system focuses mainly on employment stabilization and job skills development aimed at preventing unemployment and promoting employment.

The employment stabilization programme is designed to harmonize efficiency and equity in the labour market through assistance with employment adjustment, regional employment stimulation and employment facilitation and the provision of labour-market information and job placement services.^a These measures are aimed at minimizing job mismatch and encouraging employers to avoid massive layoffs, promote the employment of disadvantaged workers and create jobs in depressed regions.

The job skills development programme encourages the active participation of employees and employers in training and retraining the workforce. Employers receive subsidies for training costs and employees receive low-cost loans for skills development. The unemployed receive a job-seeking allowance and employment-promotion benefits. The system covers more than 80 per cent of workers in the Republic of Korea.

^a Kil-Sang Yoo, *The Employment Insurance System in Korea* (Seoul, Korea Labour Institute, 1999); and Claire Harasty, ed., “Successful employment and labour market policies in Europe and Asia and the Pacific”, Employment Strategy Papers 2004/4 (Geneva, ILO, 2004), <www.ilo.org/public/english/employment/strat/download/esp4.pdf>.

Well-targeted safety nets, means-tested income transfers and subsidized microcredit aimed at improving the access of the poor to financial services could also be used to help the poor to build assets.

⁵⁹ International Center for Peace and Development, “Commercial agriculture as an engine for rural development, industrialization and full employment”, Prosperity 2000: A Call to the Nation, <www.icpd.org/employment/summary_of_prosperity_2000_strategy_for_india.htm>.

as opposed to labour may be necessary. Overcrowding in the agricultural sector and the resulting low productivity could be mitigated by promoting agro-based industries.

In countries where agriculture still dominates production and employment, the emphasis should be on promoting traditional employment opportunities through accelerated growth and development in the sector. Land reform, extension services, provision of credit, crop diversification and rural infrastructure development would play a critical role in this respect. Improved marketing facilities and cooperative organizations could also be effective instruments in advancing rural employment.

Creating jobs in the informal services and agricultural sectors, with a focus on productivity improvement, is vital in providing additional employment opportunities and in narrowing the deficit in decent work (see box III.6). This process could be facilitated by measures to formalize the informal sector. Important would be a reduction in the unit labour costs prevailing in the formal sector, which act as a disincentive for informal sector enterprises to expand and make the transition to the formal sector.

Promotion of microenterprises and small and medium-sized enterprises

Microenterprises and small-scale enterprises, common in the informal sector, have substantial growth potential, but they appear to be less productive than their potential and tend to have a high "mortality" rate. To avoid such failures, these firms need a more conducive business environment, with lower entry costs, better infrastructure, more capacity-building, good governance and open-market economic settings. Improved access to credit could be a major support for microenterprises, particularly in the Pacific island countries and territories.

Entrepreneurship development

Improving the competence and aptitude to initiate, nurture and expand industrial enterprises could revitalize small and medium-sized enterprises and firmly establish them as viable options for employment in the informal sector

The development of entrepreneurship is a vital component of human resources develop-

Box III.6. Looking beyond the information technology sector in India

The global development of the information technology sector has led to a rapid expansion in information technology-enabled services in India, particularly in low-skill sectors, and an increase in the business processes outsourcing from developed countries, especially the United States.

Can the revolution in the information technology sector in India resolve India's unemployment problems and the other ills in its labour markets? Certainly not. The information technology sector accounts for less than 1 per cent of GDP in India and employs fewer than 1 million people in a total labour force of 450 million, so the sector's quantitative significance is limited.^a

To address the unemployment issue in a broader context, particularly given its growing labour force, India would need to think beyond the information technology sector and pay attention to the needs of the non-elite strata of society, using the agricultural, manufacturing and service sectors for job creation.

^a Sukti Dasgupta and Ajit Singh, "Manufacturing, services, jobless growth and informal economy: will services be the new engine of Indian economic growth?", paper presented at the United Nations University World Institute for Development Economics Research (WIDER) Jubilee Conference, 17-18 June 2005, Helsinki, <www.unu.edu/conference/conference-2005-3/conference-2005-3-papers/Dasgupta%8%20Singh.pdf>.

ment aimed at job creation. Lack of competence and the aptitude to initiate, nurture and expand industrial enterprises is a major reason why small and medium-sized enterprises and self-employment fail to become viable options for generating employment in the informal sector. Although many Governments have encouraged the development of entrepreneurship and self-employment among youth, relatively few microfinancing initiatives are specifically targeted at youth and those that are tended to be implemented by non-governmental organizations or private banks. Many initiatives are too small in scale and lacking in resources to make a substantial dent in youth unemployment. There is a need to increase national commitments to youth employment initiatives and to scale up investment in youth employment.⁶⁰

Indonesia is fostering linkages between large and small enterprises, believing that large companies have the knowledge, expertise, resources and networks to assist small and medium-sized enterprises and start-ups in accessing the necessary support.

China's Ministry of Labour and Social Security and the All-China Youth Federation launched the "Entrepreneurship campaign for young laid-off workers" and the "China youth entrepreneurship campaign" in 1998. The former campaign was a mass experiment to support and assist young laid-off workers to achieve re-employment by enabling them to start their own businesses. It focuses on training young entrepreneurs, employment training and intermediary services. The latter campaign organizes and implements business start-up activities across the country and provides support for start-up businesses, conceptualization and intermediary services. This campaign is aimed at generating employment and re-employment through business creation. From 1998 to 2004 business start-up skill training was provided to nearly 400,000 young people, supported by nearly 90,000 enterprises that also helped directly to resettle more than 1.1 million laid-off workers.

⁶⁰ United Nations, *World Youth Report 2005* (United Nations publication, Sales No. E.05.IV.6).

Measures for labour market-related institutional development

Improving the business environment

Providing a business-friendly environment is vital for the private sector to thrive and actively engage in employment generation and fulfil its corporate responsibilities

Providing an environment that is conducive to private sector activity is a prerequisite for active private sector engagement in employment generation. In a globalized economy the ability of the State sector to generate adequate levels of employment on its own is increasingly limited.

In many developing countries in the region, however, the private sector is hampered by inconsistent policies and implementation of laws, frequent legal changes, the considerable discretionary powers of local authorities and bureaucratic harassment, complicated by the lengthy registration procedures of firms, stringent licensing and permit regimes and high taxation. Addressing such issues is vital for providing a friendly business environment. The approach adopted by the Republic of Korea could provide lessons for others. The Republic of Korea is reviewing economic and labour policies from the perspective of job creation, working to establish a business-friendly environment by stabilizing the labour market, improving the corporate investment and management environment through co-operative labour-management relationships and subsidizing small and medium-sized enterprises that create new jobs.

Corporate responsibility and social dialogue

Employers also play a role in generating employment. Corporate responsibility entails providing opportunities for training and retraining workers, establishing markets, collaborating with the public sector in providing opportunities for unemployed youth to train as interns and ensuring workplace safety and the welfare of employees.

***Social dialogue requires a compromise
between profit maximization by firms and
optimum wages by employees***

In many countries in the region, particularly those in South Asia, industrial relations have traditionally been antagonistic, characterized by mistrust between employers and unions, by a highly regulated legal framework and by an ineffective dispute-resolution system.⁶¹ Union actions, when politically motivated and lacking law enforcement, can hurt the economy and prevent employment creation.⁶² Social dialogue, involving employers, unions and even government, is a key instrument for overcoming an employment crisis. A compact between the employees and employers aimed at collectively managing labour-market outcomes could avoid such adverse effects. Such a compact could include agreements on wage moderation (to accommodate macroeconomic stability), tax cuts, employment benefits and job security. Such social dialogue entails a compromise between profit maximization by firms and optimum wages by employees through a common understanding and partnership.

***Rule-based framework for the
international migration of workers***

International migration could help to stabilize labour markets in both labour-importing and labour-exporting countries. The migration of skilled workers from countries with excess labour could benefit labour-importing countries and help to ease the pressure on labour markets in the labour-exporting countries. A rule-based flow of people under a global framework, such as Mode 4 of the General Agreement on Trade in Services of the World Trade Organization, could produce tangible benefits for all countries.

⁶¹ A. Sivananthiran and C.S. Venkata Ratnam, "Globalization and labour management relations in South Asia" (New Delhi, ILO, South Asia Multidisciplinary Advisory Team, 1999).

⁶² In Sri Lanka, for example, a significant number of hours are lost due to union strike actions, imposing considerable costs on the economy; see Ramani Gunatilaka, "Labour legislation and female employment in Sri Lanka's manufacturing sector", Institute of Policy Studies of Sri Lanka, Labour Economics Series 14 (Colombo, 1999).

CONCLUSION

***Some unemployment issues are
policy-induced and others emanate
from cultural and political ideologies***

The changing dynamics of production in the face of globalization has sparked concerns about jobless growth in many high-growth economies in the Asian and Pacific region, leading to questions about the appropriateness of their development strategies. While a large proportion of people employed in the region are the working poor, the high rate of unemployed youth reflects a tremendous waste of human resources.

While some unemployment issues in the region are policy-induced, others are due to cultural and political ideologies inherent in some societies. Different socio-economic settings lead to different employment outcomes; thus, development policies need to be tailored to suit the circumstances in specific countries.

***The problem of unemployment should
be considered in the context of the
overall macroeconomic and
political environment***

For a sustained reduction in unemployment and achieving full and productive employment, solutions have to be considered in the context of the overall macroeconomic and political environment. While economic growth is a necessary condition, growth alone cannot create sufficient employment opportunities to adequately reduce unemployment, as many economies in the region have documented. A balanced approach based on economic growth and State interventions is needed to ensure that growth is broad-based and equitable.

***Foremost among the policies required
are sound macroeconomic policies
supported by credible labour-market
policies and reforms***

Foremost among the policies required for addressing unemployment are sound macroeconomic policies supported by credible labour-market policies and reforms. A distortion-free, flexible labour market would permit resources to

be reallocated efficiently at times of external and policy-induced shocks. Reductions in labour costs and improvements in labour productivity are needed to sharpen the currently eroding competitive edge of developing countries in the region in a globalized setting. To bridge the gap between supply and demand while providing an enabling environment for smooth employment adjustment at times of shocks and structural change, countries need active labour-market policies, in particular policies aimed at developing human capital, facilitating labour-market entry, providing labour-market information, facilitating job searches, creating opportunities and providing targeted safety nets for the unemployed.

As Governments limit their role to that of regulators and facilitators, the role of the private sector in providing employment becomes even more vital

In increasingly open economic systems, the role of the private sector in providing employment becomes ever more vital as Governments limit their role to that of regulators and facilitators of private sector growth and employment generation. Elimination of constraints such as complex firm-registration requirements, stringent licensing and high taxation would be of paramount importance. Harmonious industrial relations through social dialogue could enhance private sector initiatives.