

Sustaining productivity and competitiveness on a foundation of decent work

**Asian Employment Forum: Growth, Employment and
Decent Work
Beijing, People's Republic of China
13-15 August 2007**

1. Introduction

The 14th Asian Regional Meeting held in Busan, Republic of Korea (September 2006),¹ concluded that decent work and reducing poverty across the region could be achieved by effectively promoting productivity growth, enhancing enterprise and national competitiveness, and fostering growth in the number of decent jobs available for workers.

This background paper, covering the Asia-Pacific region, provides:

- an overview of recent trends and future scenarios concerning economic growth, firm and country competitiveness and labour productivity; and
- an array of challenges and broad policy responses to promote competitiveness and productivity performance for decent work

Clarifying concepts

Economic growth, firm and country competitiveness and productivity are closely linked concepts. Given their importance for promoting decent work, it is instructive to examine their determinants (Box 1).

Box 1: Concepts of economic growth, productivity and competitiveness

Economic growth

Five main sources of growth are commonly cited in the economics literature: investment, human capital, productivity, trade/integration and institutions/governance. Traditionally, economists only considered the first three factors. However, recent research stresses the important contributions of trade/integration to regional and global markets and institutions/governance including labour institutions.

Productivity growth

Productivity is a measure of the efficiency with which inputs are used to produce goods and services. In broad terms, productivity is defined as the ratio of output to one or more of the inputs used in production. These inputs include tangibles such as labour, land, capital, energy and intangible resources, such as managerial expertise and information. The importance of a nation's productivity lies in the fact that productivity increases are the main way in which living standards can be raised, especially in the long run.

The main way enterprises can increase their productivity is by investing in fixed capital and in their workforce, achieving economies of scale, advancing innovation and technology, and adopting better business practices.

Competitiveness

The productivity of a firm's employees or a country's workforce is a key determining factor of enterprise competitiveness in the overall economy. Competitiveness determines whether companies are able to sell their goods for a profit, further invest in skills and capital and grow their businesses and, ultimately, whether economies can attract investment and realize higher rates of economic growth.

There is much debate about the determinants of competitiveness. Recent research² shows that a nation's competitiveness rests on eight pillars: institutions, infrastructure, macro-economy, health and primary education, higher education and training, market efficiency (including labour market), technological readiness, business sophistication and innovation. It is important to note that these factors cannot ensure competitiveness, but together they contribute to the development of more competitive economies.

¹ ILO: *Realizing Decent Work in Asia: Conclusions*, Fourteenth Asian Regional Meeting (Busan, Republic of Korea, 2006).

² World Economic Forum: *The Global Competitiveness Report 2006-2007* (Geneva, 2006).

The realization of decent work for all is intricately linked with the concepts of economic growth, productivity and competitiveness. If an enterprise is not able to maintain its competitiveness, its long-term viability and the quantity and quality of jobs it provides will be in doubt. Conversely, workplaces that provide decent work build the human and social capital essential for sustained productivity improvement. Thus, a two-way relationship between productivity and decent work exists.

2. Recent Trends

It is clear that many Asia-Pacific countries have made considerable progress in productivity and competitiveness. Labour productivity (measured as output per worker) increased by 45.4 per cent in the Asia-Pacific region between 1996 and 2006, compared with growth rates of only 14.1 per cent over the same period in the rest of the world.³ The region's improving competitiveness in the global economy – driven by low relative production costs, abundant numbers of skilled and semi-skilled workers and rapid growth in the productivity of the region's workforce – has led to booming export growth, expansion of domestic consumption and rising living standards. Indeed, growth has been underpinned by exceptional trade performance, reflecting deepening integration, both among Asian countries themselves and with the rest of the world.

Despite the region's improving competitiveness in the global economy, many workers in the Asia-Pacific region have not benefited from the significant growth experienced in the region. In 2006, an estimated 17.6 per cent of all workers in Asia, i.e. more than 308 million in total, were living in extreme poverty on less than US\$1 per day, while approximately 908 million, or 51.9 percent of Asia's workers, live on less than US\$2 per day. Even if the region's rapid historical growth rates continue and current trends persist, the Asia-Pacific region will still be home to over 190 million US\$1 working poor and over 800 million US\$2 working poor in 2015.⁴

Meanwhile, more than 24 million new jobs are needed each year just to keep up with the region's growing number of jobseekers.⁵ However, while growth in the region as a whole over recent years has clearly been stellar, the performance of some countries has been considerably less favourable. In addition, although the gap between developed and the developing countries in the Asia-Pacific region has been narrowing, it still remains enormous – even between countries that have been very successful, such as China and India.

Greater economic integration and interdependence has also brought new and significant challenges to the region. There is arguably greater competition between Asian economies than ever before, including for scarce resources, both natural and human. There is also significant variation in performance within the region: China and India are emerging as economic powerhouses, while some industries within newly industrialized economies have been losing market share. Meanwhile, the Pacific Island states are increasingly marginalized and have often failed to benefit from the region's otherwise impressive growth.

³ World Bank: World Development Indicators (2007); ILO: Global Employment Trends Model (2007).

⁴ ILO: Trends Working Poverty Model (2007).

⁵ ILO: Economically Active Population Estimates and Projections Database, Version 5 (2006); the source of the population figures is the United Nations Population Division: World Population Prospects: The 2006 Revision Population Database (2007).

Looking ahead, several trends are likely to shape the main issues and priorities, which can be summarized as follows:⁶

- The influence of China and India on regional and global economies will continue to grow. China's share of Asia's regional GDP is on track to grow from approximately 20.4 per cent to 31-33 per cent between 2005 and 2020, while India's share could grow from 7.2 per cent to between 8.7-10 per cent. Japan is still the region's largest economy and accounted for more than 41 per cent of regional output in 2005, but this share is expected to fall to between 27 and 28 per cent by 2020 if current trends persist.
- Globalization will continue, bringing greater interdependence, integration and competition. Inter- and intra-Asian trade and investment in the region shows no sign of abating. Export competition is likely to grow, as is competition for increasingly scarce resources, including energy, primary inputs and human capital. China's economy has arguably benefited the most from globalization in recent years, and the country is likely to increasingly challenge the competitive advantage of more developed countries.
- Asia's 2006 population of more than 3.74 billion will increase by 365 million by 2015. The share of the prime working-age population (25-54) in the total population will continue to grow (from 36.7 per cent in 2006 to 38 per cent in 2015). However, there will at the same time be a significant increase in the share of the population aged 55 and above across the region, particularly in East Asian countries such as Japan, China and the Republic of Korea. The population aged 55 and above is forecast to surge by 175.4 million, or 34.5 per cent, between 2006 and 2015. In China alone, the population aged 55 and above is projected to grow by nearly 76 million, or over 35 per cent.⁷
- Young people have greater access to education. The Asia-Pacific region as a whole has made tremendous progress in increasing access to education,⁸ including tertiary education. These trends in education should serve to benefit labour productivity in the coming years. However, enrolment alone is not a guarantee for success. As higher rates of enrolment are achieved, the policy issue of improving the quality of schools and universities comes into central focus. This requires greater attention to the quality of learning.
- Female labour force participation rates are likely to remain comparatively low in many South Asian economies, including India, Pakistan and Afghanistan. The gap between female and male labour force participation rates stood at 45.5 percentage points in 2006 in South Asia, and it is forecast to decline only slightly, to 43.5 per cent in 2015. This is the second largest labour participation gap in the world, after the Middle East and North Africa region.
- The stark diversity across Asian economies is likely to grow. Without a significant change in direction, the Pacific region will increasingly be left behind and marginalized, while rapidly growing countries, such as China, India and Viet Nam, will attract an even greater share of investment in the region.

⁶This section (including data) draws from ILO: *Visions for Asia's Decent Work Decade: Sustainable Growth and Jobs to 2015*, Paper prepared for the Asian Employment Forum: Growth, Employment and Decent Work, Beijing, People's Republic of China, 13-15 August 2007.

⁷ United Nations Population Division: *World Population Prospects: The 2006 Revision Population Database* (2007).

⁸ Between 1991 and 2006, the combined primary and lower-secondary school net enrolment rate in the Asia-Pacific region rose steadily from 68.8 to 78.2, with the biggest gains occurring in South Asia, the region with the lowest net enrolment rates. ILO estimates based on UNESCO enrolment data.

- The importance of policy compatibility or coordination across the region is likely to grow. Regional organizations, such as ASEAN and SAARC,⁹ are likely to be key driving force behind regional integration and strengthened policy coherence. The possible emergence of free trade zones and the establishment of additional multilateral agreements among Member States will require greater attention to the effects of changes in domestic policies and will increase pressure for regional agreements on skills qualifications, labour migration policies, and transportability of social security and other benefits.
- Micro-level sources of competitiveness are likely to increase in importance. With greater regional integration reducing the influence of macroeconomic policy levers, firm-level differences in human resource practices, such as hiring practices, training programmes, incentive pay, working conditions and labour-management relations, will play an increasingly important role in determining the competitiveness of firms and countries. For many countries in Asia with ageing workforces and relatively low rates of labour market entry, an increased focus on workplace learning will be needed.
- By 2015, extreme poverty among workers is projected to fall to around 3 per cent in East Asia and to about 8 per cent in South-East Asia. However, in South Asia it is likely that approximately 1 in 5 workers will still endeavour to support their families on less than US\$1 per person per day. Vulnerability to moderate poverty will remain pervasive throughout much of Asia and the Pacific. Based on current trends, 7 out of 10 workers in South Asia, 4 out of 10 workers in South-East Asia and the Pacific, and nearly 2 in 10 workers in East Asia will live on less than US\$2 per person per day.

Overall, many countries in the region are on track to continue to grow, reduce poverty and to expand the numbers and improve the quality of available jobs. Yet to promote sustainable and equitable growth over the long run, economies in the region will need to carefully balance the objectives of increased competitiveness, improved productivity and employment growth and seek out strategies to increase both the quality of work, particularly its productivity and protection, and the number of jobs.

3. Challenges to sustaining competitiveness and productivity performance for decent work

Policies to enhance productivity and competitiveness need to recognize diversity and they need to be customized in line with countries' level of development, available resources and institutional capacity. Clearly, there is no magic formula but trends can be discerned which indicate the relative importance of different factors, according to levels of countries' development. Greater focus within countries on emerging sectors and linking skills development to investment is critical in order to increase both the quantity and quality of employment.

⁹ The Association of Southeast Asian Nations (ASEAN) was established to accelerate economic growth, social progress and cultural development in the region and promote regional peace and stability. The 10 ASEAN Member Countries include: Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam. The South Asian Association for Regional Cooperation (SAARC) is an economic and political organization composed of the following eight South Asian countries: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

- For example, the challenge in low-income countries is often to move beyond competing on cheap labour or natural resource endowments. This is probably best achieved by focusing on a broad range of basic conditions, including basic education, employability, technical skills, health and addressing infrastructure weaknesses, rather than placing the priority on upgrading regulatory standards for businesses.
- For middle-income countries, significant competitiveness factors will most likely involve improving the marketing and management capacities of enterprises and the relevance of post-secondary education and vocational skills, expanding the export base, improving the quality of telecommunications infrastructure and expanding internet usage.
- For high-income countries, increasing innovative capacities will be crucial. National competitiveness is significantly influenced by factors such as the quality of corporate governance, the extent of bureaucratic red tape, the quality and flexibility of skilled labour supported by recognition and portability of skills across occupations and industries, improved financial markets which reduce barriers to foreign investment, and the depth of cluster development.

Obviously, this is a stylized representation of complex and diverse processes. However, it illustrates that the level of development is likely to influence which factors represent the most significant constraints and thus the need to develop situational specific policy responses rather than relying solely on copying policies from other countries. Furthermore, it must be recognized that these categories are not mutually exclusive and that constraints will vary and often overlap between sectors and localities.

Two broad challenges confront all countries across the Asia-Pacific region, irrespective of the levels of development: the first challenge is how to accelerate productivity growth, and the second relates to the distribution of productivity gains – both are key for the goal of realizing decent work in the region.

Accelerating productivity growth

Recent ILO analysis has provided new insights on how productivity and employment growth are connected in both long- and short-term timeframes; the analysis has pointed to the prospects for policy and social dialogue to keep productivity and employment growing in parallel.¹⁰ This research has also explained the conditions for a “virtuous circle” of productivity and employment growth.

As employment growth slows down and the rapid growth of the region’s elderly population, accelerating productivity growth performance is likely to become more important in coming years, particularly in order to reduce widespread underemployment and poverty. Increasing productivity is now recognized as an indicator of progress towards the Millennium Development Goal (MDG) of cutting poverty in half by 2015.¹¹

Achieving this acceleration of productive growth requires a mix of policies aimed at:

¹⁰ ILO: *World Employment Report 2004-05: Employment, Productivity and Poverty Reduction* (Geneva, 2005).

¹¹ “Full and productive employment and decent work for all” has now been included as a MDG target, reflecting a growing realization that this is the main route for people to escape poverty. Four indicators including employment-to-population ratios, vulnerable employment, the share of the working poor in total employment and labour productivity will be utilized to measure progress. See ILO: *Key Indicators of the Labour Market*, 5th Edition (forthcoming).

- Creating an environment conducive to sustainable enterprises;
- Building human capital in basic education, as well as in technical and core skills;
- Encouraging the application of decent and productive workplace practices;
- Improving labour-management cooperation and dialogue; and
- Addressing sector-specific challenges in the agriculture and service sectors and in the informal economy.

Creating an environment conducive to sustainable enterprises

The discussion on the promotion of sustainable enterprises at the International Labour Conference in 2007¹² recognized that sustainable enterprises are a principal source of growth, wealth creation, employment and decent work. The promotion of sustainable enterprises is therefore a major tool for achieving decent work, as well as sustainable development and innovation, which improve living standards and social conditions.

The deliberations on this topic concluded that it is important to ground policy in the instruments guiding the ILO's wider Decent Work Agenda and in the guidance outlined in the Global Employment Agenda when addressing the challenges of promoting sustainable enterprises. The discussions also provided guidance on what constitutes a conducive environment for sustainable enterprises, noting that such an environment combines the legitimate quest for profit with the need for development that respects human dignity, environmental sustainability and decent work. The conclusions of the Committee on the Promotion of Sustainable Enterprises identify and elaborate on the pillars of such a conducive environment, outline enterprise-level characteristics of a sustainable enterprise and provide guidance on the roles that governments, social partners and the ILO should play in promoting sustainable enterprises (see Appendix).

Building skills for productivity and employment growth

High levels of human capital resulting from high education levels, relevant training and continuous on-the-job learning is one of the key driving forces of organizational and technical innovations essential to improving productivity. Furthermore, strong human capital facilitates the transfer, adaptation, absorption and dissemination of technologies that accompany inward direct foreign investments, as well as those acquired through inward and outward international trade.¹³ However, it is not just the level of education and training that is important, but the quality and relevance of that training to labour market needs, as well as the accessibility of learning opportunities to all workers, that strongly determine the impact of education and training on productivity.

The discussion on skills for productivity, employment growth and development at the International Labour Conference in June 2008 will review national experiences in using skills development to improve both the productivity and the quantity of employment in terms of decent work. One area of discussion may be how skills development systems that connect education to technical training, labour market entry and workplace learning are a source of

¹² ILO: International Labour Conference, Provisional Record, 96th Session, Geneva, 2007.

¹³ See ILO: *World Employment Report* (Geneva, 1999) and A. Isaakson et al.: *Productivity in Developing countries: Trends and Policies* (Vienna, UNIDO, 2005) for examples of Asian education and training policies in support of development strategies.

comparative advantage in achieving productivity growth and in translating that growth into more and better jobs.

In terms of equitable adaptation to change, solid core skills and opportunities for lifelong learning make it easier for workers who lose their jobs in enterprises using obsolete technologies to learn skills which are in demand in more competitive industries. In addition, wider access to relevant training in rural areas and in the informal economy prepares more women and men to benefit from technological changes and economic growth and makes it possible to avoid them being left behind.

Improved human capital is necessary as is the absorptive capacity to acquire, assimilate and benefit from technologies flowing through trade, FDI and direct technology transfer transactions. To maximize the benefits of productivity and competitiveness improvement, human capital development must be supported by strengthening other critical elements of the national innovation system,¹⁴ including social dialogue, macroeconomic policies to maximize opportunities for pro-poor employment growth, creating a sustainable business environment, and fundamental investments in basic education, health care and physical infrastructure.

Public-private dialogue, tripartite institutions, such as industry training/skills councils and partnerships, have an important role to play in ensuring that graduates leave educational institutions with relevant skills and qualifications and that they are able to adapt rapidly to the changing work environment and embrace new technologies. Government policies are also critical in providing incentives to the business sector to invest more in the ongoing training of their workers and for individuals to take advantage of opportunities for lifelong learning and career development.

To sustain growth and productivity, there has to be a human resource development policy and strategy that is consistent with the desired development and growth paths of a given country.¹⁵ Experiences of forward-looking skills development in the developed economies and newly industrialized economies in the region bear this out, as reflected in the experiences of the Philippines (Box 2)¹⁶ and Singapore (Box 3), and as documented in the recent SKILLS-AP Technical Meeting on National Skills Strategies.¹⁷

Box 2: National Human Resource Conference on Productivity and Competitiveness: The Philippines

A National Human Resource Conference was organized in April 2007 by the Government of the Philippines, with the participation of employers and workers organizations and other concerned stakeholders, to draw up a policy and action agenda on workforce productivity and competitiveness. The Conference identified best practices in workforce productivity and competitiveness and specifically addressed improving workplace labour relations and overcoming constraints with respect to education and training in selected occupations and sectors with job growth potential. The Conference also focused its discussions on overcoming labour shortages in specialized skills due to rapidly changing requirements in domestic and global labour markets

¹⁴ R. Narula: *Understanding absorptive capacities in an "innovation system" context: Consequences for economic growth* (University of Reading, United Kingdom, 2004).

¹⁵ The developmental state model approach to training followed by the Republic of Korea, Singapore and Hong Kong (China) is described in detail in ILO: *Skills in Asia and the Pacific: Why training matters* (Bangkok, 1999).

¹⁶ The ILO has an extensive compilation of national human resource development initiatives. The compilation covers 90 countries classified by fields of action, actors and target groups. This compilation is available at: http://www.ilo.org/public/english/employment/skills/hrdr/instr/ins_top.htm.

¹⁷ ILO Skills-AP: *Together: making national skills strategies that work for all – with lessons from Australia, Singapore, Malaysia and South Africa* (Geneva, 2007).

for which the Philippines has been a major provider of overseas labour. These sectors were agribusiness, mining, cyber services, hotels and restaurants, health, wellness and medical tourism, maritime, and construction.

Source: Department of Labor and Employment: *Report of the National Human Resource Conference* (Manila, Apr. 2007).

Box 3: Linking skills development to industrial policy: The experience of Singapore

For several decades, Singapore has pursued targeted foreign direct investments according to its development strategy. Tax concessions, infrastructure improvements, education and skills training, supportive expatriate employment policies and a generally business-friendly environment have attracted foreign investment and have contributed to the country's rapid movement up the technological ladder. The policy has included high levels of government investment in creating high-level skills to support the targeted upgrading of the industrial structure.

The university system was expanded and directed towards the needs of the industrial policy, changing its specialization from social studies to technology and science. Apart from strengthening the formal education system, efforts were also made to develop the industrial training system. In 1979, the Skills Development Fund was established. The Vocational and Industrial Training Board (VITB) was also set up. Through various programmes, the VITB conducted training activities ranging from pre-employment training, apprenticeship schemes and skills upgrading of those already employed. Under the industry-based training programs, financial and non-financial assistance were provided to the employers.

The Singapore Workforce Development Agency (WDA) was set up in 2003 under the responsibility of the Ministry of Manpower to enhance the employability and competitiveness of employees and jobseekers. WDA has responsibility for skills frameworks, national training programmes, employment placement services and industry manpower planning. It targets meeting the needs of growing industries, as well as the needs of the workforce, including retraining workers whose skills have been made obsolete by new technologies or industries. It takes a forward-looking approach, anticipating future labour needs, identifying skills shortages and adapting public and industrial training provision to meet these needs.

One of the pillars of WDA's approach is to develop a skills framework to define skills needs and link them to the occupational structure of the industry in question. The framework incorporates occupational skills, industry skills and employability skills. One of the strategies for effective forward-looking skills development strategies has been to invest in upgrading core skills, especially of low-skilled workers, to enable them to be flexible and able to learn new skills as technologies and industries evolve.

Under WDA, the entire skills development system – from standards development, qualifications certification, accreditation of training providers, quality assurance, matching skills to current and emerging industry needs, targeting public investment in funding training – is coordinated. In this role, WDA is designated as the champion of workforce development.

Source: S. Lall: *Export performance, technological upgrading and foreign direct investment strategies in the Asian newly industrializing economies – With special reference to Singapore* (Santiago, Chile, CEPAL, Oct. 2000); Singapore Workforce Development Agency: Paper for Skills-AP (2006).

The capacity to adopt, utilize and disseminate technology, such as Information and Communication Technologies (ICT) within a country or economic sector, is very much dependent on the availability of appropriately educated and trained human resources. The availability of professional, technical and managerial people was a major constraint faced by Malaysian manufacturers in the introduction of ICT in their enterprises (Box 4). The impact on productivity and wages of ICT was much influenced by the availability of the needed competencies.

Box 4: Role of skills in ICT adoption: The Malaysian experience

In 1997, a survey of 2,300 companies was carried out on the use of ICTs. The applications were broadly grouped into: (a) administration, (b) communication, (c) control function, e.g. logistics and transport, and (d) production processes, e.g. CAD-CAM. Significant findings of the study related to the skills implications of introduction and use of ICT include:

- Adoption of ICT has been constrained by a lack of trained ICT personnel;
- Value added and wages tend to rise after ICT adoption;
- Productivity improves with ICT use, experience and skills training;
- The productivity effects of training were significant in firms of all sizes;
- Productivity growth is highest with continuous training.

Source: H. Tan: *The skills challenge of new technology: Training, technology and productivity growth in Malaysian manufacturing in the 1990s* (Washington, D.C., World Bank, 2005).

Managerial competence is particularly important in promoting creative and innovative¹⁸ approaches that are essential for the continued productivity and competitive performance of an enterprise.

Encouraging the application of decent and productive workplace practices

In addition to improvements in human capital, progressive workplace practices based on good working conditions, innovations in work organization, continuous workplace learning, good labour-management relations and respect for workers' rights, are also emerging as increasingly important ways of raising productivity and promoting decent work. Key to the success and spread of such practices is building the capacity and productivity of employees through appropriate workplace organization and by establishing open communications channels, leading to workers' heightened engagement.¹⁹ The importance of team building and partnership is now widely recognized.²⁰

Innovative workplace practices may require up-front investments, while the benefits are often longer-term in nature. Employers must therefore take a longer-term view of the benefits of improved workplace practices for the overall health and performance of their enterprises. The likelihood of success will be maximized if there is an open and honest dialogue between employers and workers. Consequently, the role of employers' organizations and workers' organizations will be critical for realizing the mutual benefits of productivity growth (Box 5).

Box 5: The Better Factories Cambodia project

Improving labour standards in global supply chains is an important part of a pro-poor development strategy. Ensuring that workers' rights and entitlements are protected helps distribute the benefits of trade. The Better Factories Cambodia project supports apparel factories in implementing international labour standards and complying with national labour laws. This helps factories compete in global markets where many buyers demand compliance with labour standards from their suppliers. Improved labour standards also help enterprises to become more competitive through higher productivity and quality. These benefits help to build the business case and supplier support for improved labour standards.

A World Bank survey undertaken in December 2004 found that good working conditions in Cambodian factories were a major factor in the decisions taken by buyers in sourcing from that country. Many predicted that the end of the quota system in 2005 would result in a dramatic reduction in employment in Cambodia. However, data compiled in 2006 show that:

- Employment levels in the garment sector continued to increase;
- Both the volume and value of imports to the US increased in seasonally adjusted terms; and

¹⁸ J.E. Aubert: *Promoting innovation in developing countries: A conceptual framework*, World Bank Policy Research Paper 3554 (Washington D.C., Apr. 2005).

¹⁹ J. Addison et al.: "Worker participation and firm level performance", in *British Journal of Industrial Relations*, Vol. 38, No. 1, Mar. 2000, pp. 7 - 48; I.C. Imoisili et al.: *Productivity improvement through strengthening management-labour cooperation* (Port-of-Spain, ILO, 2004).

²⁰ ILO: *Supporting workplace learning for high performance working* (Geneva, 2002).

- Buyers strongly engaged with *Better Factories Cambodia* increased their purchase volumes at twice the industry average in 2005.

Better Factories Cambodia has achieved this by implementing a three-pronged strategy. First, it monitors and reports on working conditions in Cambodian garment factories according to national laws and core international (ILO) labour standards. Secondly, it helps factories to improve working conditions and productivity through workplace cooperation on remediation and training. Thirdly, it facilitates dialogue between the social partners and international buyers to ensure a rigorous, transparent and continuous cycle of improvement and establish cross-border cooperation.

Source: ILO: Better Factories Cambodia project documents.

Improving labour-management cooperation and dialogue

The 14th Asian Regional Meeting (2006) recognized that developing labour management cooperation and bipartite partnership mechanisms and other appropriate institutions and regulations, including frameworks for social dialogue, are important elements for the effective and fair functioning of labour markets.

There are many practical examples of positive correlations between employee cooperation and productivity.²¹ Strategies to enhance employee involvement in workplace decision-making are often more successful when integrated with other enterprise strategies and when placed under an overarching strategy emphasizing the mutual interests of employees and employers. Such engagement is usually positively correlated to lower employee turnover, improved productivity and enhanced commercial outcomes, including sales growth, customer satisfaction, and total shareholder return.²² Thus, employee involvement plays a major part in innovation at the enterprise level, which is usually key to enterprise competitiveness (Box 6).

Box 6: The ILO Factory Improvement Programme

The ILO's pilot Factory Improvement Programme (FIP) operating in Viet Nam, Sri Lanka and India, helps participating enterprises increase productivity, improve working conditions and strengthen collaboration and communication between managers and workers.

The programme shows that effective enterprise-level practices have led to measurably improved enterprise performance and conditions of employment. For example, an independent evaluation in Viet Nam reported that:

- Each factory had established Factory Improvement Teams. These generally were composed of managers and workers and all continue to operate some 14 months after the programme ended.
- End-line production defects were, on average, reduced by 67 per cent. In some workshops, reductions of over 90 per cent were achieved.
- Awareness was raised on quality and productivity issues across all levels of the factories (as demonstrated by the widespread continuing use of tools and techniques introduced in FIP).
- Factories reported productivity improvements.
- Working areas were reconfigured to ensure efficiency gains in production, enhanced worker safety and an improved working environment overall.

Heightened awareness was achieved of occupational health and safety issues in the participating factories and subsequent action was taken to reduce hazards, such as the provision of safety equipment, and establish accident response procedures.

Source: ILO: Factory Improvement Programme – Vietnam Final Evaluation (September 2006).

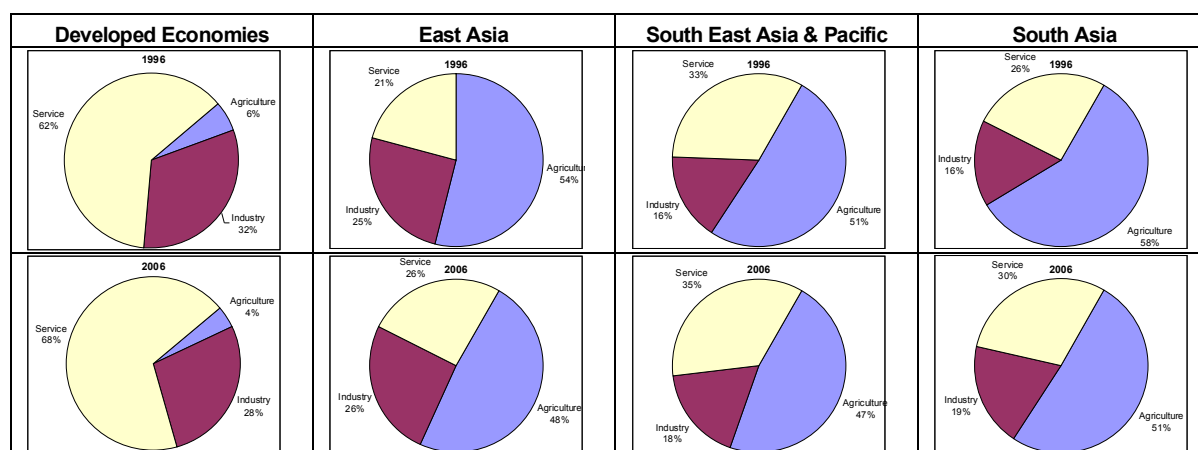
²¹ J. Addison, op. cit.; I.C. Imoisili et al., op. cit.; and J.M. Rosow and J.V. Hickey: *The partnership paradigm for competitive advantage* (New York, Strategic Partners for High Performance, Work in America Institute, 1994).

²² R.S. Kaplan and D.P. Norton: *The strategy focused organization* (Boston, Harvard Business School Press, 2001).

Sector-specific challenges

In keeping with the analysis of the relationships between productivity, employment and poverty contained in the *World Employment Report 2004-05*,²³ the 14th Asian Regional Meeting concluded that it is necessary to build capacity in sectors where the majority of workforce is employed, while at the same time not neglecting investments in dynamic sectors of the economy.²⁴ As shown in figure 1, the majority of people living in the Asia-Pacific region are employed in the agriculture and service sectors and the underlying shifts, particularly in developing countries, pose new challenges that need to be considered.

Figure 1. Employment by sector in the Asia-Pacific subregions, 1996 and 2006



Promoting productive employment in rural areas

In South Asia and parts of South-East Asia, agriculture remains the main source of income for a very large segment of the population. Therefore, improving productivity in agriculture is important not only for the development of the economy as a whole but also for poverty reduction, particularly as poverty is predominantly a rural phenomenon. It provides employment opportunities and a chance for the poor to work their way out of poverty.²⁵

The lack of productive employment opportunities in rural areas has widespread repercussions which have an impact far beyond the local community. The interdependency of rural and urban areas means that major issues, such as rural-urban migration, food security and poverty need to be addressed through an integrated approach, with balanced attention to geographically differentiated needs. Rural employment is characterized by many of the same trends seen in the overall employment in developing countries, for example high levels of underemployment, low productivity, low wages, increasing levels of casual labour, employment insecurity and poor working conditions.

The focus on agricultural growth itself needs to be driven at least in some measure by labour productivity – as opposed to being driven only by technical and efficiency change – in order to produce better poverty reduction results. Productivity can be raised by ensuring access to capital through developing rural financial services, encouraging the development of yield-raising innovations in public and private research, advances in the health and education of

²³ ILO: *World Employment Report 2004-05: Employment, Productivity and Poverty Reduction*, op. cit.

²⁴ ILO: *Realizing Decent Work in Asia*, Report of the Director-General, Fourteenth Asian Regional Meeting (Busan, Republic of Korea, 2006).

²⁵ ILO: *World Employment Report 2004-05: Employment, Productivity and Poverty Reduction*, op. cit.

workers, and promoting non-farm income-generating opportunities. Within each of these approaches, rural communities need to have access to technical training, extension services and entrepreneurship training in order to ensure that the potential of these investments are translated into tangible gains in productivity and income.

Productivity growth is needed in the growing service sector

The service sector is the fastest growing sector in the Asia-Pacific region. In some countries, it is already the major employer and contributor to GDP, while in others the sector is clearly increasing its share of outputs and employment. It is the main source of employment growth in most ASEAN countries. The contribution to national productivity increase of the employment shift from low productivity agriculture to services can be dampened if the employment shift leans towards low productivity services activities, particularly those in the informal economy. Improving the productivity of service industries such as transport, communication, finance, food and beverage, hospitality, education and health, administration and government, is a major challenge facing economies in the region. For example, Japan has recognized the importance of improving of service sector productivity by establishing a special Service Industry Productivity Council (Box 7).

<p>Box 7: Japan sets up Service Industry Productivity Council</p> <p>About 70 per cent of Japan's economy is now composed of service industries. Yet, the level of productivity in the country's service sector remains low relative to European countries and the U.S. The improvement of productivity in the country's service sector will be critical for future growth prospects of the Japanese economy.</p> <p>Against this background, the Service Industry Productivity Council was established to serve as a platform for industry, academia and government to work together to improve the productivity and quality of service in the industry. The expected outputs are higher economic growth rates, improvement of regional economies and multiplier effects into other industries, such as manufacturing.</p> <p>The objectives of the Council are to:</p> <ul style="list-style-type: none"> ▪ Apply service innovation through scientific and systematic approaches; ▪ Improve service productivity and the development of human resources; ▪ Improve infrastructure and facilitation of market entry; and ▪ Improve public awareness. <p>Source: Japan Productivity Center for Socio-Economic Development, http://www.jpc-sed.or.jp/eng/index.html (accessed May 2007).</p>

There are particular challenges and difficulties in measuring and improving productivity in the service sector.²⁶ In many service sub-sectors, production and consumption processes are often simultaneous or overlap. Psychological outcomes (e.g. satisfaction, comfort and pleasure) are also significant outputs. The direct interaction between customers and staff is a very important determinant of this outcome. Thus, people and their skills and attitudes are particularly critical to any productivity improvement in this very labour-intensive sector. These particular skills and attitude requirements may call for new training and development approaches, as well as supportive elements of the human resource management system. Effective integrated human resources management is of central importance.

²⁶ New Zealand Tourism Research Institute: *Food and beverage service sector productivity study* (AUT University, Jan. 2007).

Specific policies are needed to address challenges in the informal economy

Poverty reduction through growth and employment requires a specific focus on the informal economy. Given the existence of the huge informal economy in many Asia-Pacific countries and the problems of matching demand with supply of labour in the formal economy, a realistic option is to focus on improving the productivity of this large pool of human potential. Increasing the productivity of informal economy workers and improving working conditions will go a long way towards reducing working poverty. Furthermore, accelerating the productivity growth of low-productivity workers at the bottom end of the wage/income spectrum is one of the best ways to accelerate average economy-wide productivity growth, while at the same time counteracting increasing inequality.

Policy interventions in the informal economy should be broadly concerned with both upgrading micro- and small-enterprises, extending access to quality and relevant training – including to those workers who did not have access to adequate basic education before entering the labour market – and improving protection of workers in these enterprises (and their families), as well as providing realistic pathways so that they can move to the formal economy.

4. Equitably distributing productivity gains

The robust growth of the Asia-Pacific economy has reduced the numbers of people living below the poverty line. However, a large number of people are still living and working in poverty across the region. In addition, the uneven growth within and among countries has resulted in increasing inequality, which could impede future growth.²⁷ Inequality prevents people, particularly the poor, from having access to resources essential to participation in the growth process (for example, education, training, health services and financial services). These constraints, in turn, force the working poor to only engage in low productivity activities, thus perpetuating the cycle of inadequate access to education, training, capital and markets.

It is important for firms to benefit from increased productivity, as this allows them to make investments and fuel the innovations needed for future growth. However, if the gains from increased efficiency accrue solely to firms' profits, the poverty-reducing potential of increased productivity is likely to be insignificant. Workers need to be able to participate in the success of enterprises and to gain a fair share in the benefits of economic activities and increased productivity. This helps to contribute to a more equitable distribution of income and wealth. There is clear evidence to suggest that a highly inequitable growth process will be difficult to sustain, and the challenge for policy-makers is how to put in place a growth process that is wholly compatible with, and delivers the goals of, full and productive employment.²⁸

Thus, collective bargaining systems and improved dialogue between workers and employers are needed to ensure that all sides reap the rewards of productivity improvements. The extent to which productivity and competitiveness is dealt with through collective bargaining varies considerably from one country to another. However, collective bargaining is only one of the means for enhancing productivity and competitiveness. It must also be underpinned by

²⁷ M. Ravallion: *Pro-poor growth: A primer*, World Bank Policy Research Working Paper 3242 (Washington, D.C., Mar. 2004).

²⁸ J. Felipe and R. Hasan: "Labor markets in a globalizing world", in J. Felipe and R. Hasan (eds.): *Labor markets in Asia: Issues and perspectives* (London, Palgrave Macmillan for the Asian Development Bank, 2006).

basic conditions, such as good infrastructure, quality health and education systems and effective and appropriate government regulations.

Strong and independent workers' and employers' organizations must have the technical capacities to represent their stakeholders and access to the information that enables them to participate effectively in social dialogue. Tripartism, bipartism and effective social dialogue are fundamental to promoting and sustaining productivity and competitiveness for decent work (Box 8).

Box 8: New Zealand National Workplace Productivity Programme

The Government of New Zealand follows a tripartite approach in seeking to raise workplace productivity. It has identified seven key drivers of workplace productivity in the country: leadership/management, skills/knowledge, technology/innovation, work organisation, workplace cultures, network/collaboration and measurement.

The government has set up a website on which employers can find practical information and case studies to help them improve their workplace productivity. The website states that "Workplace productivity is the key to lifting New Zealand's living standards and wealth. It is about increasing the value of what we produce by working in different and better ways". These case studies are exemplary workplaces, designed to show other workplaces how the performance benefits are achieved. The information provided includes best practices and case studies and draws from the lessons New Zealand enterprises have learned. It discusses what productivity is, and is not, and gives employers and employees ideas on how the government can help transform New Zealand into a high value, high-skill and high-wage economy.

New Zealand's National Workplace Productivity Programme reaches a large number of workplaces and provides practical support for employers and workers to raise performance in the workplace, the value of the work done and the rewards for both employers and workers.

Source: New Zealand Department of Labour, <http://www.dol.govt.nz/workplaceproductivity/>.

5. Suggested key questions

1. To promote sustainable and equitable growth over the long run, economies in the region will need to carefully balance policies to achieve the mutually reinforcing objectives of increased competitiveness, improved productivity and employment growth. In this respect, what policies, incentives and institutional strengthening are needed to achieve employment-centred growth and decent work for all?
2. There have been significant business and regulatory reforms in many Asia-Pacific countries in recent years. Based on the conclusions of the Committee on The Promotion of Sustainable Enterprises (see Appendix), what are the most significant outstanding reforms needed to promote sustainable enterprises as the principal source of growth, wealth creation, employment and decent work?
3. There is a sense in many countries that public investments in skills development are not achieving the desired impact in terms of employability and productive work. What role can governments, workers' and employers' organizations play in building effective national skills development systems to better link education, vocational training, labour market entry, workplace and lifelong learning in order to increase opportunities for productive work? What multidisciplinary strategies and multi-ministerial collaborative efforts are needed?

4. How can skills development help maintain productivity and employability in the face of technological, environmental and market changes – at the level of the individual enterprise, along value chains and within industrial clusters, and for national economies as a whole?
5. How can governments and social partners promote the application of decent and productive workplace practices so that they become commonplace and are not seen as innovative or exceptional?
6. What policies and institutions are needed to ensure that the benefits of productivity and competitiveness gains are shared equitably by all stakeholders?
7. In many Asia-Pacific countries there are very large informal economies that are characterized by high levels of underemployment, low productivity, low wages, employment insecurity, and poor working conditions. Increasing the productivity of informal economy workers and improving working conditions will go a long way towards reducing working poverty. What policy initiatives are recommended to attain this goal?
8. How can countries in Asia-Pacific promote more effectively share experiences and knowledge about good practices for improving productivity and expanding decent work?

Appendix

**Committee on the Promotion of Sustainable Enterprises
International Labour Conference 2007
The Conclusions at a Glance**

Conditions for a conducive environment for sustainable enterprises		Role of Government in the promotion of sustainable enterprises
<ol style="list-style-type: none"> 1. Peace and political stability 2. Good governance 3. Social dialogue 4. Respect for universal human rights 5. Entrepreneurial culture 6. Sound and stable macroeconomic policy 7. Trade and sustainable economic integration 8. Enabling legal and regulatory environment 9. Rule of law and secure property rights 10. Fair competition 11. Access to financial services 12. Physical infrastructure 13. Information and communications technology 14. Education, training and life-long learning 15. Social justice and social inclusion 16. Adequate social protection 17. Responsible stewardship of the environment 		<ol style="list-style-type: none"> 1. Facilitating and participating in social dialogue 2. Labour law enforcement through efficient labour administration, including labour inspection 3. Encouragement of voluntary concept of CSR 4. Promotion of socially and environmentally responsible public procurement, lending and investment 5. Promoting sectors and value chains 6. Flexibility and protection to manage change 7. Targeted programmes 8. Research and innovation 9. Access to information and business and financial services 10. Policy coordination and coherence 11. International policies 12. Production and consumption patterns 13. Supporting skills development
Enterprise-level principles for sustainable enterprises		Role of the social partners in the promotion of sustainable enterprises
<ol style="list-style-type: none"> 1. Social dialogue and good industrial relations 2. Human resource development 3. Conditions of work 4. Productivity, wages and shared benefits 5. Corporate social responsibility (CSR) 6. Corporate governance 		<ol style="list-style-type: none"> 1. Advocacy 2. Representation 3. Services 4. Implementation of policies and standards