

**Making decent work
an Asian goal**

Making decent work an Asian goal

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Preface

Asia is at the heart of the globalization process. Working women and men have increasingly high levels of education and skills, and enterprises are becoming world-class competitors. For many, globalization has brought prosperity, opportunities, better lives and a brighter future. But for too many, mere survival is still a daily challenge.

In this region of diversity, a common aspiration transcends national boundaries and cultures: women and men want a fair chance at a job that gives them and their families a decent life. Indeed, this is a global demand. It is what people expect from their leaders and their societies. And people are investing their own energies to reach this goal. But when effort is consistently unmatched by opportunity, hope is likely to wane.

Recent economic growth in Asia has been by far the most rapid in the world. Yet Asia faces a number of employment challenges: rising unemployment; supporting the working poor trapped in poverty in the informal economy so that they can build a better life; tackling the strong gender imbalances in employment and remuneration; and opening up opportunities for and realizing the full potential of Asia's youthful population.

The jobs crisis gravely threatens the credibility of democracy; it places a strain on the family; and it undermines social stability and human security.

Across the region, the importance of employment in people's lives is well recognized and reflected in policy statements, programmes and projects. Yet despite some successes, closing the jobs gap and eliminating poverty remain a formidable challenge.

The goal is not just more jobs, but better jobs. People do what they must to survive, but they aspire to far more. Survival strategies cannot be the basis of inclusive and sustainable development.

Against this backdrop, the ILO's tripartite constituents have adopted the Decent Work Agenda and mobilized around it. It is based on productive employment and entrepreneurship, rights at work, social protection and social dialogue as part of broader strategies for growth and competitiveness. It is founded on universal principles, but prescribes no universal solutions.

The Decent Work Agenda revalues work, calls for it to be at the heart, and not a by-product, of the policy agenda nationally, regionally and globally, and offers a different, coherent approach to work and employment at all levels.

Following the last Regional Meeting, you have been working out decent work plans and programmes guided by your priorities and circumstances.

In many ways, Asia has taken the lead. Others around the world are drawing from your experience and learning from the example that you have set.

Such initiatives are vital and must be sustained.

Yet there are limits to national action in an era of globalization and connectedness.

This Meeting takes the challenge to another level – “Making decent work an Asian goal”. The spotlight will be on four broad and interlinked areas of high common concern nationally and regionally:

- jobs, competitiveness and productivity – key to filling the jobs gap, achieving decent work and improving the quality of life;
- youth employment – within a broader employment strategy, opening up opportunities for young people and equipping them to keep Asia growing and competitive and build a better future;
- migration – tackling the challenge of promoting decent work opportunities at home and protection for those who need – and are needed – to work elsewhere; and
- shaping sound labour market institutions as a key factor of stability, security and the expansion of decent work opportunities.

The discussions will take up standards and rights at work, gender and dialogue as cross-cutting themes.

There will be much scope for sharing of regional experience, networking, cooperation and other action.

The report of the World Commission on the Social Dimension of Globalization¹ called for decent work to be a global goal as the basis of a fair and inclusive globalization. Regional action is essential in pushing for fair global rules and institutions that respond to the simple and legitimate aspirations of people.

Making decent work an Asian goal is a major step towards making decent work a global goal.

July 2005.

Juan Somavia,
Director-General.

¹ ILO: *A fair globalization: Creating opportunities for all*, report of the World Commission on the Social Dimension of Globalization (Geneva, 2004).

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Acronyms and abbreviations

ACE	ASEAN Confederation of Employers
ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
ALMP	Active labour market policy
APEC	Asian Pacific Economic Cooperation
ARM	Asian Regional Meeting
ASEAN	Association of Southeast Asian Nations
ATC	Agreement on Textiles and Clothing
ATUC	ASEAN Trade Union Council
BPO	Business process outsourcing
BTA	Bilateral trade agreement
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
CSR	Corporate social responsibility
EPZ	Export processing zone
ESCWA	Economic and Social Commission for Western Asia
EU	European Union
FDI	Foreign direct investment
FTA	Free trade agreement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
GDP	Gross domestic product
GUF	Global Union Federation
ICT	Information and communication technology
ICFTU	International Confederation of Free Trade Unions

IFA	International Framework Agreements
ILC	International Labour Conference
IOM	International Organization for Migration
IT	Information technology
ITES	Information technology-enabled services
LMI	Labour market information
M&A	Mergers and acquisitions
MDG	Millennium Development Goal
MENA	Middle East and North Africa
MFA	Multifibre Agreement
MNEs	Multinational enterprises
OECD	Organisation for Economic Co-operation and Development
OSH	Occupational safety and health
PRSP	Poverty Reduction Strategy Papers
PTA	Preferential trade arrangement
R&D	Research and development
RTA	Regional trading agreement
SAARC	South Asian Association for Regional Cooperation
SLOM	Senior Labour Officials Meeting
SMEs	Small and medium-sized enterprises
T&C	Textile and clothing
TNC	Transnational corporation
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
VET	Vocational education and training
WCSDG	World Commission on the Social Dimension of Globalization
WTO	World Trade Organization
YEN	Youth Employment Network

1. Making decent work an Asian goal

Taking the next steps to achieve decent work

The economic volatility of globalizing countries had been a key concern at the 13th Asian Regional Meeting (ARM) in 2001. The context then was dominated by vivid memories and lingering effects of the Asian financial crisis of 1997-98. Asian countries, once lauded for their openness, had become vulnerable precisely because of that openness. The region's impressive record of economic growth and reduction of poverty associated with globalization had been reversed: unemployment and underemployment soared and painful adjustments had to be made by governments, businesses and working women and men and their families. Therefore, delegates at the 13th ARM stressed that globalization brings with it important benefits, but also risks and sometimes heavy economic and social costs, and urged the Office to help constituents to better manage the globalization forces and achieve decent work.

Asian constituents call on ILO to address globalization effects

In response, the ILO has been helping Asians to “begin at home” to address globalization and poverty reduction through national efforts and plans of action for decent work. People experience globalization most directly through their work – not just whether they have a job, but whether they have productive employment that provides an adequate income to keep them and their families out of poverty, security in times of adversity, good working conditions and a voice in decisions that affect their lives and livelihoods. How much productive employment is available, what skills and training they need to access the work and what rewards they will reap from the work – these are central concerns for all working women and men. Furthermore, the successful organization of work is the key to successful businesses and prosperous countries in a competitive global marketplace.

Beginning at home

Volume I of the report for the 14th ARM¹ describes ILO efforts to promote productive and remunerative work in conditions of freedom, equity, security and human dignity. Since 2001, significant progress has been made, with an increasing number of Asian countries incorporating decent work into national development and social agendas.

¹ ILO: *Decent work in Asia: Reporting on results 2001-2004*, Report of the Director-General, Vol. I, 14th Asian Regional Meeting, Busan, Oct. 2005.

“In today’s world, no State, however powerful, can protect itself on its own. Likewise, no country, weak or strong, can realize prosperity in a vacuum. We can and must act together. We owe it to each other to do so, and we owe each other an account of how we do so. If we live up to those mutual commitments, we can make the new millennium worthy of its name.”

Source: United Nations: *In larger freedom: Towards development, security and human rights for all*, Report of the Secretary-General of the United Nations for decision by Heads of State and Government, General Assembly, 59th Session, document A/59/2005, 21 March 2005, para. 24.

Taking the next steps at the regional level

This report is about taking the next steps to promote decent work – not only at national but also at regional level. *Making decent work an Asian goal* recognizes that economic and social progress is increasingly determined not by the actions of individual countries but by the interconnectivity, complementarities and interdependence among people, economies and countries. While there is great diversity within the Asian region – which, for purposes of this report, covers the Arab States in West Asia, the countries of South, South-East and East Asia, the Pacific island countries and Australia and New Zealand – there is also growing interdependence. Workers are engaged in national labour markets that are linked through trade and investment to decisions taken in other countries. Asian countries are being linked in regional production systems, driven by the operations of multinational enterprises. The regional labour market has been widening, with growing cross-border flows of Asian workers. Trade, investment and financial flows are increasingly intra-Asian. Global competition is intensifying but, at the same time, regional integration and cooperation arrangements are deepening.

It is in this context that the report calls upon the ILO’s tripartite constituents to come together not only at local and national, but also at subregional and regional levels to find ways to achieve what people most want and need in their lives – decent work. Employers’ organizations and trade unions, as well as governments and public agencies, are most directly involved in and have first-hand experience of dealing with the turbulent forces of globalization. Tripartite cooperation, social dialogue, protection of fundamental rights and macroeconomic and social policy coherence offer the means for achieving shared interests “in larger freedom”.²

Good governance for achieving decent work

This report stresses good governance – based on democracy, social equity, respect for human rights and the rule of law – as fundamental for making decent work an Asian goal. Good governance hinges on the quality of institutions. Across Asia, growing attention is being given to efficient, transparent and accountable institutions in both the public and private sectors. This report emphasizes that strong labour market institutions buttressed by social dialogue and tripartism are essential for economic and social progress.

At the regional level, the report emphasizes that integration and cooperation can help Asian countries both manage global forces and achieve decent work for all. It is not only the regional organizations of nation States that can promote good governance. Multinational enterprises (MNEs) have corporate social responsibilities. (Sub)regional organizations of workers and employers have important roles to play. There can also be (sub)regional net-

² “In larger freedom” refers to the interlinkages between development, security and human rights for all. See United Nations: *In larger freedom: Towards development, security and human rights for all*, Report of the Secretary-General to the United Nations for decision by Heads of State and Government, General Assembly, 59th Session, document A/59/2005, 21 Mar. 2005.

works and other cooperation arrangements, for example among skills training institutions, youth organizations, etc.

The importance of making decent work an Asian goal

Making decent work an Asian goal is particularly relevant today:

- It is very much in line with the growing intraregional trends (in trade, foreign direct investment, capital flows and labour migration) and the various (sub)regional integration initiatives that are already under way in Asia; it emphasizes the importance of the labour and employment dimensions in such initiatives.
- Making decent work an Asian goal will go a long way towards making decent work a global goal, as recommended in the report of the World Commission on the Social Dimension of Globalization³ and reflected in the Director-General's Report to the International Labour Conference in 2004⁴ and the ILO's Strategic Policy Framework for 2006-09.
- It responds to a United Nations General Assembly resolution adopted in December 2004, calling for the report of the World Commission to be considered within the United Nations system organizations and by member States and to provide information on their activities "to promote an inclusive and equitable globalization".⁵
- Opportunities for decent and productive employment are central to the commitment Asian countries made to achieving the Millennium Development Goals (MDGs), in particular, poverty reduction, education for all, gender equality and the empowerment of women, and decent and productive work for young people.

Making decent work an Asian goal is not about conditionality. Nor is it about decent work being the same in every Asian country. A goal is something that countries, individually and collectively, can progressively work towards attaining. The threshold advances as societies and economies progress. Different countries, given their national specificities, will strive differently towards enhancing the quantity and quality of employment.

However, there are principles and rights, such as freedom of association, non-discrimination, non-use of forced labour and child labour, and the promotion of gender equality, that can and should be respected in all contexts and at all levels of development.

At the same time, there are certain aspects on which countries would find it effective to strengthen regional integration and better harmonize macro-economic, trade, investment, labour and social policies. A collaborative framework of policies, mechanisms, institutions – which actively involves workers and employers – would better enable countries to tackle together at the (sub)regional level some of the imbalances of globalization and address issues of common concern, such as networking for human resource development and the promotion of youth employment, the management of labour migration, and joint action to tackle disasters and crises. Asian countries could

Coherence and cooperation, not conditionality

³ World Commission on the Social Dimension of Globalization: *A fair globalization: Creating opportunities for all* (Geneva, ILO, 2004).

⁴ ILO: *A fair globalization: The role of the ILO*, Report of the Director-General on the World Commission on the Social Dimension of Globalization (Geneva, ILO, 2004).

⁵ Resolution 59/57, 59th Session of the General Assembly: *A fair globalization: Creating opportunities for all*, Report of the World Commission on the Social Dimension of Globalization, adopted on 2 Dec. 2004, document A/RES/59/57.

also benefit from better sharing of knowledge and experiences and the development of common statistical databases.

Structure of the report

Chapter 2 highlights the labour market and employment-related challenges for Asia in an increasingly globalizing world. How Asian countries deal with these challenges, individually and together, to achieve decent work will determine the future of Asia and Asians. Four priority challenges are highlighted:

- the demographic dynamics, offering a “demographic gift” to some countries and posing problems related to intensifying ageing in others;
- the poverty challenge: whether Asian countries can meet their commitment to achieve the first Millennium Development Goal (MDG 1) of reducing poverty by half by 2015;
- the challenge of promoting productive employment, which assumes greater significance when linked both to “working poverty” and to the importance of tapping the enormous potential of Asian youth; and
- the challenge posed by the rising mobility of people within and across borders in their search for decent work and human security.

Chapter 3 shows that in the face of growing global competition, Asian countries are strengthening regional integration and cooperation. Two recent developments in the global economy also have important implications for employment and labour markets in Asia: the ending of the Agreement on Textiles and Clothing (ATC) and Multifibre Agreement (MFA) on 1 January 2005, and the global sourcing of information technology enabled services (ITES).

A comprehensive, integrated and gender-sensitive approach that covers all four dimensions – employment, rights, protection and dialogue – is critical for achieving decent work in Asia. To help focus discussion in four parallel sessions at the 14th ARM, Chapter 4 selects four core aspects that are essential for achieving decent work in Asia:

- competitiveness, productivity and jobs in a globalizing context;
- youth employment: key in the life cycle for decent work;
- labour migration: towards a regional framework; and
- governance for making decent work an Asian goal.

The final chapter raises points for discussion at the 14th ARM by the ILO’s Asian constituents. It also asks them what the Office can contribute at the national, (sub)regional and global levels to help make decent work an Asian goal. The ILO’s comparative advantage is its Decent Work Agenda – the quantity and quality of productive employment is of paramount concern to all ILO constituents. The ILO’s unique contribution lies in its international labour standards and tripartite structure and social dialogue, but its relevance is also ensured by its knowledge base, advocacy and services.

2. Decent work challenges for Asia in a globalizing world

Asia leading in the global economy

The significance of Asia in the world economy can be seen from a number of indicators.¹ Recent economic growth in this region with a population of over 4 billion has been by far the most rapid in the world (figure 2.1). Growth has been underpinned by exceptional trade performance and strong domestic demand, with many countries running consistent and sizeable current account surpluses and generally robust income growth boosting consumer spending and business investment.

Asia has taken advantage of globalization more than any other developing region

Over the last two decades, Asia's exports of goods and services increased five-and-a-half times, as compared to a threefold increase worldwide. The region's share of world merchandise exports was 24.2 per cent in 2002, and its share of world services exports rose from less than 10 per cent in 1980 to 17 per cent in 2002, whereas the relative positions of Latin America and Africa deteriorated as their exports of services grew more slowly than the world average.²

Intra-Asian trade has been growing much faster than trans-Pacific trade. Many countries in Asia are now trading more between themselves than with other markets in the world – reflecting both the rising importance of Asian consumers and the growing involvement of Asian countries in different stages of global production systems.

In the developing world, Asia is the biggest destination of foreign direct investment (FDI), with more and more of these flows originating within the region; it is also the largest and fastest-growing outward investor, accounting for three-quarters of the total outward FDI stock of developing economies and four-fifths of total outflows on average during 2000-03.³ Asia is the locus of major global production systems and the operation of MNEs.⁴ It accounts

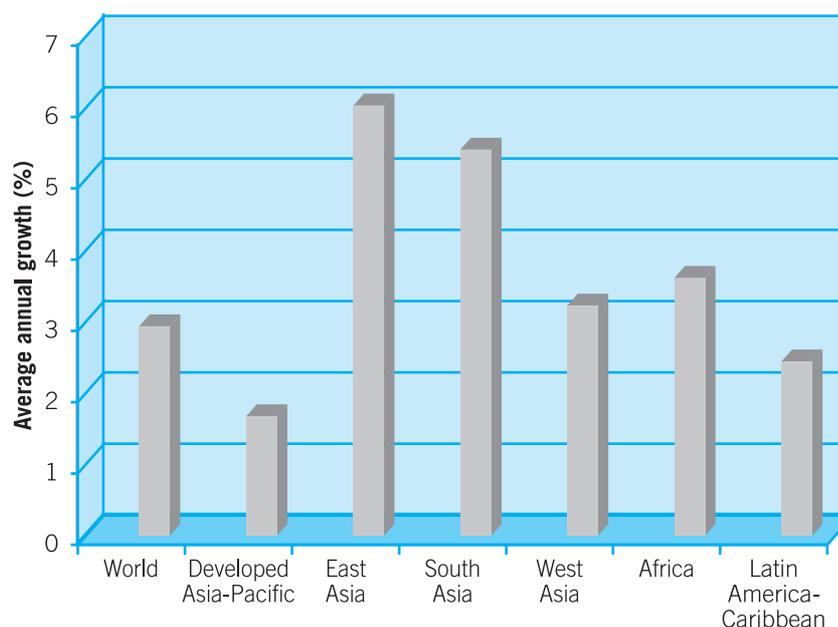
¹ See ILO: *Labour and social trends in Asia and the Pacific*, background report for the 14th ARM (Bangkok, 2005).

² United Nations Conference on Trade and Development (UNCTAD): *Development and globalization: Facts and figures* (New York and Geneva, 2004), pp. 51 and 60.

³ *idem. World Investment Report 2004: The shift towards services* (New York and Geneva, 2004), p. 25.

⁴ A total of 54 per cent of the world's parent corporations and foreign affiliates were located in Asia. *ibid.*, Annex Table A1.2.

Figure 2.1. Economic growth for Asia and other major sub-regions, 1995-2004



Source: Department of Economic and Social Affairs of the United Nations Secretariat (UN/DESA): *World Economic Situation and Prospects 2005* (New York, 2005), table I.1.

for nearly 90 per cent of the net portfolio equity flows to emerging markets.⁵ It also has the highest level of savings and largest accumulation of foreign reserves in the world.⁶

Great diversity and imbalances within Asia

Globalization benefits and costs unevenly distributed

Within Asia, there is great diversity, ranging from the developed economies (Japan, Australia and New Zealand), to the former “Asian miracle economies” (the “tigers” – Hong Kong (China), Republic of Korea, Singapore and Taiwan (China); and the “tiger cubs” – Indonesia, Malaysia, the Philippines and Thailand), to the non-oil- and oil-producing Arab States, to the least developed countries (Afghanistan, Bangladesh, Bhutan, Cambodia, Kiribati, Lao People’s Democratic Republic, Maldives, Myanmar, Nepal, Samoa, Solomon Islands, Democratic Republic of Timor-Leste, Tuvalu and Vanuatu). Several countries remain mired in social conflicts and tensions, their path to democracy and peace hampered by the lack of decent and productive employment opportunities for the population.

The *East and South-East Asian countries* have been among the most vigorous adherents and major beneficiaries of globalization. The countries most open to trade, capital and information and communications technology (ICT) – those previously labelled the “Asian miracle economies” – have generally shown the fastest rates of economic growth. A new economic geography has been emerging, with China and, more recently, India registering enviable economic growth, together accounting for one-third of the world’s

⁵ Asian Development Bank (ADB): *Asian Development Outlook 2005: Promoting competition for long-term development* (Hong Kong, China, 2005), p. 18.

⁶ United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP): *Meeting the challenges in an era of globalization by strengthening regional development cooperation* (New York, 2004), p. 3.

population and viewed by the rest of the world as increasingly important competitors and customers.

Within *South Asia*, India has been a “rising star”. The Islamic Republic of Iran, Pakistan and Sri Lanka (until the recent tsunami) have also been performing relatively well in terms of gross domestic product (GDP) growth rates. But the subregion also includes several least developed countries whose economic performance has been affected by natural disasters (the tsunami in the Maldives, floods in Bangladesh), political unrest (Afghanistan, Nepal) and the expiry of the MFA (Bangladesh, Maldives and Nepal, where garments have been a key export).

*West Asia*⁷ has experienced slower integration into the global economy,⁸ with oil production the main driver of inward investment and foreign trade, and heavy dependence on labour migration from both within and beyond the Arab world. There are important differences between the non-oil- and oil-producing countries, with the latter prospering and the former experiencing rising poverty levels. Economic performance has been affected by conflict or tensions attendant on the prospects of war and by oil revenues.

The small and narrowly focused economies in the *Pacific* have been significantly under-performing compared to other parts of Asia. All are highly open to trade, relying heavily on imports for many essential supplies and on a narrow range of commodity and natural resource exports and/or international tourism for their export receipts. Many also depend on remittances from their nationals abroad. “A key feature (and a key vulnerability) of most [Pacific developing member country] economies is their relatively low degree of reliance on domestic economic growth, and therefore on productivity improvements in the private sector, to drive the development process”.⁹

Major decent work challenges

Despite the region’s overall leading performance in the world economy, employment and labour conditions remain major challenges. That productive and decent employment is a top priority concern of Asian countries is evident from box 2.1. How Asian countries, individually and together, handle the labour market and employment-related challenges to achieve decent work in a rapidly globalizing context will determine the future of Asia and Asians.

The demographic challenge

Rapid demographic transitions and the “demographic dividend”

Many recent demographic changes reflect the region’s development success. Infant and child mortality rates have declined considerably and millions can now look forward to longer and healthier lives. School enrolment

⁷ In the ILO context, West Asia covers Bahrain, Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates and Yemen. In this report, however, owing to the lack of statistical data, the information provided in several instances refers to the entire Middle East and North Africa (MENA) region, which includes Gulf Cooperation Council (GCC) countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates and Yemen) and non-GCC countries (Algeria, Djibouti, Egypt, Islamic Republic of Iran, Jordan, Lebanon, Morocco, Syrian Arab Republic and Tunisia).

⁸ Whereas world trade grew at 8 per cent over the past decade, that in the Middle East and North Africa grew by only 3 per cent. World Bank: *Trade, investment, and development in the Middle East and North Africa: Engaging with the world* (Washington, DC, 2003), p. xv.

⁹ ADB: *Responding to the priorities of the poor: A Pacific strategy for the Asian Development Bank 2005-2009* (Manila, Oct. 2004), pp. 3-4.

Box 2.1**The decent work challenge in Asia**

“A peaceful and secure ASEAN where job creation, employment and the livelihood of its citizens are taken care of is the desired goal in combating all the threats to society. Such a condition will provide human security” (Secretary-General of ASEAN at the Second Asia-Pacific Homeland Security Summit and Exposition, 16 November 2004).

“As I unfold the vision of the UPA Government, Honourable Members will note that the central theme that runs through the various schemes and programmes is creation of jobs” (Minister of Finance of India, Budget Speech 2005-06).

“Our attempt hence should be to find gainful employment for around 76 million people ... which is an essential need for India to become a developed country before 2020” (President of India unveiling an Action Plan for Employment Generation on the eve of Republic Day in 2005).

“An important focus will be to improve the rate of economic growth and its quality in the sense of creating more and better jobs, sustainable reduction in poverty and vulnerability. Our growth rate has not created the number of good jobs we would expect from a 4-5 per cent growth rate nor significantly reduced Indonesians’ vulnerability to falling into poverty” (Minister of State for National Development Planning on the overview of Indonesia’s Medium-Term Development Plan 2004-2009).

“Creating more jobs, arguably the country’s most important task, would greatly assist in reaching the goal of reducing poverty incidence from 25.5 per cent to about 18.0 per cent by the end of this decade. This will require many more jobs, particularly higher-paid positions in the formal sector, and an increase in agricultural productivity” (The Philippines, in ADB: *Asian Development Outlook 2005*, op. cit., page 111).

“Labour policies shall be guided by the principles of providing decent and productive employment. Decent and productive employment means that adequate income is generated, rights at work are protected, social protection is provided for, and participation in the democratic process is guaranteed through tripartism and social dialogue. It also means sufficient employment, where all workers have full access to income-earning opportunities” (Medium-Term Philippine Development Plan 2005-2010).

“We will follow a proactive employment policy, conscientiously implement all policies and measures

to support re-employment, and expand their coverage to workers laid off from collectively owned enterprises” (Premier of China at the Third Session of the Tenth National People’s Congress, 5 March 2005).

“The Republic of Korea’s labour market has deteriorated with the number of unemployed workers and the unemployment rate both on a rising trend. In particular, the unemployment rate of 8 per cent in November 2003 for those aged between 15 and 29 is of considerable concern; lack of relevant skills was one of the reasons cited most often by Republic of Korea companies for preferring to hire experienced workers rather than their younger counterparts” (UNESCAP: *Economic and Social Survey of Asia and the Pacific 2004*, page 58).

“Job creation for growing young populations has been minimal: this is an issue of growing concern among Pacific island leaders and people alike ... Most [Pacific developing member countries] PDMCs are handicapped by extremely low competitiveness, low productivity, and inadequate infrastructure” (ADB: *Responding to the priorities of the poor*, op. cit., page 5).

“Few challenges confronting the economies and societies of the [Middle East and North Africa] MENA region are as pressing as those emanating from their labor markets. Almost every country in the region suffers from high unemployment, which mostly affects the young, the educated, and women ... its labour market dynamics are ... unique in the extent to which deeply embedded rigidities coexist with a rapidly expanding labor force – indeed the fastest-growing labor force of any region in the world ... In no small measure MENA’s economic future will be determined by the fate of its labor markets” (World Bank: *Unlocking the employment potential in the Middle East and North Africa: Toward a new social contract* (Washington, DC, 2004, pages xvii and 1).

“We consider the ILO our closest allies in achieving labour market and social security reform” (Minister of Social Affairs and Labour, Syrian Arab Republic).

“Economic development does not come at the price of safe and decent work. Therefore, I welcome this opportunity to re-emphasize my commitment to economic progress that is both safe and healthy” (Prime Minister of Thailand on the World Day for Safety and Health at Work 2005).

and levels of literacy continue to rise, bringing countries closer to achieving the second Millennium Development Goal (MDG2) of universal primary education. Fertility rates have been falling rapidly and population growth rates are declining with consequent changes in age structure.

With fertility in decline, the working-age population tends to grow more rapidly than the overall population. An increase in the relative share of the economically active population together with a decline in the proportion of economic dependants (the young and the elderly) can yield a “demographic dividend” or “demographic gift”. If countries are able to exploit the window of opportunity offered by a larger labour force, the demographic bonus can be parlayed into larger consumption and investment markets and higher economic growth. The demographic dividend also offers an opportunity to increase women’s participation in the labour force – this is significant, especially where women have previously been kept out of active economic participation by high levels of childbearing and rearing, as in West Asia. The challenge, though, is to create enough productive jobs for all the new entrants into the labour force.

The relatively rapid growth of labour force in many Asian countries “is a blessing or a burden depending on their ability to increase employment opportunities and maintain growth in labour productivity”.¹⁰ The demographic dividend is not just an employment phenomenon; it may spill over to other parts of the economy. The relative decline in the number of young dependants can encourage higher rates of saving and greater investment in human capital. Rapid growth in per capita income and employment as well as higher rates of saving can lead to an increase in investment. In turn, a rise in investment rates can lead to capital deepening and productivity growth in terms of output per worker.

The Republic of Korea, Singapore and Thailand have already been able to benefit from the demographic dividend to achieve rapid growth in investment, productivity, health, education and employment. Studies estimate that favourable demographic trends accounted for between one-quarter and one-third of the growth of per capita income during the period of rapid labour force growth.¹¹ In the coming years, it will be the South Asian and West Asian countries that will be facing the challenge of seizing the demographic dividend.

Growth rates declining, but total population still huge and young

Asia’s total population is growing, although it will do so at a declining rate in the coming decades. The medium-growth scenario forecast by the United Nations anticipates that the total population in Asia will increase from 3.7 billion in 2000 to 4.7 billion in 2025 and to 5.2 billion in 2050.¹² Although HIV/AIDS infection rates are comparatively low, the implications can be serious for the productive population in Asia (box 2.2).

The slowest-growing populations are in East and South-East Asia. Japan is expected to have a smaller population in 2025 than in 2000. Between 2025 and 2050, population decline is also projected for China, Fiji, the Republic of Korea and Singapore. By 2050, India is expected to overtake China as the most populous country in the world.

Rapid demographic transitions both an opportunity and a challenge

Countries that seized the demographic gift accelerated economic growth

¹⁰ ADB: *Key indicators 2002: Population and human resource trends and challenges*, p. 25.

¹¹ D.E. Bloom; J.G. Williamson: “Demographic transitions and economic miracles in emerging Asia”, in *World Bank Economic Review*, 12(3), 1998, pp. 419-456; A. Mason: “Population and economic growth in East Asia”, in A. Mason (ed.): *Population change and economic development in East Asia: Challenges met, opportunities seized* (Stanford, Stanford University Press, 2001), pp. 1-30.

¹² United Nations: *World Population Prospects: The 2002 Revision* (New York, 2003).

Box 2.2.**The impact of HIV/AIDS on population and labour force in Asia**

The Asia-Pacific region is home to 60 per cent of the world's population and to 19 per cent of the men, women and children living with HIV/AIDS in 2004. The prevalence rates are low in Asia, particularly compared to Africa. HIV/AIDS prevalence rates are 0.6 per cent in South and South-East Asia, 0.1 in East Asia and 0.2 in Oceania compared to an estimated global rate of 1.1 and an overall rate for sub-Saharan Africa of 7.5. But because the populations of many Asian nations are so huge, low HIV/AIDS prevalence rates translate into large numbers. An estimated 5.2 million men, 2 million women and 168,000 children are living with HIV/AIDS in the region. Around half a million are estimated to have died as a result of AIDS in 2003 and 1.1 million are estimated to have become HIV-positive.

About 97 per cent of persons living with HIV/AIDS are in the productive working age group of 15-49 years – so that the major impact of HIV/AIDS is on the productive labour force and can be serious (see table below). The epidemic is progressing more quickly among women than men, and a girl aged 15-16 years may have up to six times more risk of becoming HIV-positive than a boy her age. While Asian

countries have recorded more widespread HIV prevention successes than any other continent in the developing world, there is evidence that fast-growing epidemics are taking place in Asia's two most populous countries, China and India. In China, projections suggest that as many as 10 million people may become infected by 2010. India may already have the largest number of people living with HIV outside Africa.

The table shows the scale of the losses to the labour force in Asia, the projected losses to 2015, and the economic and social burdens that are expected to result. The extent of the impact of the epidemic was limited initially, but the growth in the labour force losses as a proportion of the labour force is expected to double every five years. Furthermore, the economic burden for the working population is expected to rise sharply over the next ten years, and the growth in the social burden to increase even more sharply. By 2015, the increase in the social and economic burden is expected to approach one per cent, which can have a noticeable negative impact on the economies of the region.

Estimated and projected cumulative labour force losses, single year death tolls of working-age women and men, and increase in economic and social burden for persons of working age due to HIV/AIDS, selected countries of Asia [Cambodia, China, India, Myanmar, Thailand], 1995-2015

	1995	2000	2005	2010	2015
Lost female labour force	276 000	592 000	1 224 000	2 432 000	4 547 000
Lost male labour force	715 000	1 886 000	3 869 000	7 607 000	14 061 000
Lost female and male labour force as % of total labour force	0.1	0.2	0.4	0.7	1.2
Single year death toll of women due to HIV/AIDS	45 000		183 000		656 000
Single year death toll of men due to HIV/AIDS	96 000		382 000		1 316 000
Single year increase in the burden of care for persons of working-age due to AIDS (%)	0.1		0.2		0.8
Single year increase in the economic burden of persons of working-age due to AIDS (%)	0.0		0.1		0.8

Sources: ILO: *HIV/AIDS and work: Global estimates, impact and response 2004* (Geneva, 2004); Monitoring the AIDS Pandemic (MAP) Network: *AIDS in Asia: Face the facts*, at <http://www.mapnetwork.org> ; UNAIDS: *2004 Report on the Global AIDS Epidemic* (Geneva, 2004).

Fertility has fallen more slowly in West Asia than in most other parts of Asia; the West Asian population is therefore expected to double over the next fifty years.¹³ The bulk of Asia's population growth, however, will come from South Asia, which expects an additional 570 million people in India, 200 million in Pakistan, 130 million in Bangladesh and 50 million in Afghan-

¹³ World Bank: *Unlocking the employment potential in the Middle East and North Africa*, op. cit., pp. 45-47.

istan by 2050. Some island countries in the Pacific will also grow rapidly, but since they are among Asia's poorest, they are least prepared to deal with the challenges of feeding additional millions, providing jobs for potential workers and coping with increased rural density and urban congestion.¹⁴

Most of the population increase in the region will be in urban areas. In addition to natural increase, rural–urban migration is expected to escalate. More than 60 per cent of the increase in the world's urban population over the next three decades will occur in Asia, particularly in China and India, but also in Bangladesh, Pakistan, the Philippines and Viet Nam.¹⁵ The problems associated with urbanization will be exacerbated.

Of the Millennium generation – the world's young people who will be entering the labour force for the first time this century – 60 per cent are in Asia. In the year 2000, about 30 per cent of the Asian population were aged under 14 years and another 17.8 per cent were young people aged 15–24 years (figure 2.2). Although the age group 0–14 years is projected to fall to 25 per cent and the share of the youth population is expected to be 16.5 per cent by 2015, the actual numbers involved are still very large. In 2015, there will still be some 1.1 billion children and 722 million young people.

*Youth challenge:
Asia has 60 per cent
of world's Millennium
generation*

It comes as no surprise, therefore, that the provision of education for children and the creation of sufficient decent jobs for young people are major concerns of public policy. Most countries, as they experience a decline in their school-age population over the next few decades, will have the opportunity to improve the quality of their educational systems, provide additional years of schooling and ensure that girls have the same opportunities as boys. However, the youth employment challenge will remain huge.

Growth in the numbers of young people is rapidly outstripping the ability of economies to provide them with good jobs. For example, in West Asia, in the 1980s for every person finding a job there were two new entrants into the labour force reaching working age. By the late 1990s, there were nearly four new entrants to every person finding a job within a similar search period.¹⁶ High youth unemployment rates represent a wasted opportunity for tapping the “demographic dividend” provided by the demographic transition.

Increasing intensity of ageing

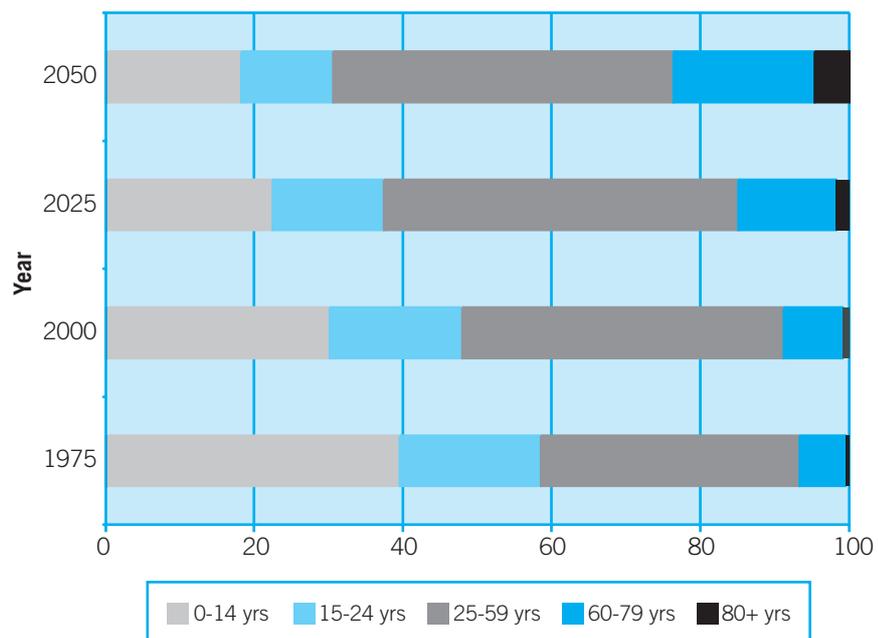
Although demographic and labour market conditions will be highly favourable to economic growth in many Asian countries in the near future, this unique window of opportunity will not remain open indefinitely. The “demographic dividend” is time-bound. Asia is ageing rapidly owing to fast-declining fertility and increasing longevity. Ageing will intensify over the next 50 years, with the share of population aged over 60 more than doubling from 8.8 per cent of the total Asian population in 2000 to an estimated 23.6 per cent by 2050 (figure 2.2). The region's share of older persons¹⁷ in the world was already 52.9 per cent by 2000 and is expected to increase to 62.6 per cent by 2050.

¹⁴ ADB: *Key Indicators 2002*, op. cit., p. 34.

¹⁵ UNESCAP: *Sustainable social development in a period of rapid globalization: Challenges, opportunities and policy options*, p. 40.

¹⁶ United Nations Economic and Social Commission for Western Asia (ESCWA): *Survey of Economic and Social Developments in the ESCWA Region 2004: Summary*, E/ESCWA/EAD/2004/3 (New York, United Nations), p. 13.

¹⁷ “Older persons” are defined as the population aged 60 years and over. This definition is used by the United Nations and is consistent with the retirement age of most countries in Asia and the Pacific.

Figure 2.2. Distribution of population by age group in Asia (percentages)

Source: United Nations Population Division: *World Population Prospects, The 2004 Revision* (New York, 2005).

Whereas the first wave of industrialized countries took between 80 and 150 years to double their elderly populations,¹⁸ China will only take 27 years, from 2000 to 2027, for the proportion of the population aged 60 and over to double from 10 to 20 per cent. In Singapore, the percentage of older persons will triple between 2000 and 2025. By 2050, the percentage of older persons will be as great in Thailand as in the United States. The Australian and New Zealand populations are also ageing rapidly; by 2050 the proportion of persons aged 60 years and over in these countries will be 28.4 and 29.3 per cent, respectively. Japan will be the greyest country, with a median age of 53 years and with 42 per cent of the population above 60 years of age.

However, the rate of ageing is still moderate in large economies such as India and Indonesia. India's population will overtake that of China before 2030. Other countries, such as Bangladesh, Malaysia, Pakistan and the Philippines, also still have relatively young populations and are ageing slowly or moderately. The West Asian countries are still in the early stages of their demographic transition. The share of the over-60 age group in West Asia is projected at 7.1 per cent in 2000 and 10.4 per cent in 2025, as compared to 8.8 and 16.1 per cent, respectively, for the entire Asian region.

Ageing as a gender issue

Females consistently outlive males, so the share of women in the 60 and over age group is projected to be 12.4 per cent of the total Asian population by 2050, as compared to 10.8 per cent for men. At age 80 and above, the gender differential is even greater, with women accounting for 3 per cent of the total population and men only about 1.7 per cent.

Implications for supply and demand in the labour market

Ageing has important implications for both supply and demand in the labour market. On the supply side, the share of those in the working-age group (15-59 years) is expected to drop from 61 per cent in 2000 to 58 per

¹⁸ UNESCAP: *Report on the regional survey on ageing* (June 2002), at www.globalaging.org/ruralaging/world/reporto.htm.

cent by 2050 – implying that the labour force could shrink in many countries within the next 50 years. In Japan, the share of the most productive age group in the population may drop from 64 per cent in 2000 to 55.4 per cent by 2025 and further to 49.2 per cent by 2050. China, the Republic of Korea, Singapore and Sri Lanka may follow suit, albeit to a lesser extent, during the second quarter of the twenty-first century.

On the demand side, there will be a shift towards services and products for older persons. Over the next 50 years, there may be a shortfall of local workers ready to go into services catering to the elderly, such as old-age health care, institutional, social and home care services. This raises the issue of labour migration as a “cushion for the ageing process”.

Social protection is even more important in this context. Many Asian countries have improved or are in the process of improving their social security systems, giving particular emphasis to extending coverage to those not covered by existing systems.¹⁹ Their concerns relate especially to the large size of the informal economy and to the financing of such systems – with rapid ageing, there will be fewer people contributing to social security and an increasing number needing benefits. There is also a gender concern, in that women, who comprise the majority of the elderly, will become even more vulnerable – as a consequence of a lifetime of discrimination, and concentration in the informal economy and in single-person and poor households, older women have less access to social protection, but are most in need of it.

The social protection challenge

The social protection challenge is much more than a question of old-age pensions and benefits. Given that many old people cannot afford to “retire”, the challenge is as much one of extending working life and enhancing employability of older workers. And it is not only in old age but at all vulnerable stages of one’s life that social protection and safety nets are important. Especially after the Asian financial crisis, the issue for many countries is not whether they can afford a social security system, but rather whether they can afford *not* to have a system.

The poverty challenge

Despite a decline in income poverty from 37 per cent in 1990 to 25 per cent in 1999, Asia is still home to some 767 million or more than two-thirds of the world’s poor living on less than US\$1 a day. If the poverty line is raised to US\$2 a day, Asia has 2 billion poor people or more than three-quarters of the world’s poor.

Asia is home to two-thirds of the world’s poor

The regional data mask different levels of performance by the countries concerned. Based on the US\$1 poverty line, poverty has been virtually eliminated in Malaysia and the Republic of Korea. Between 1990 and 2002, China, Indonesia, Thailand and Viet Nam more than halved the number of those living on less than one dollar a day – and therefore have already achieved the first Millennium Development Goal (MDG1). The Lao People’s Democratic Republic and the Philippines are also close to achieving this MDG.²⁰

The largest number of poor people is in South Asia. Although US\$1 a day poverty dropped from 40.9 per cent in 1990 to 28.4 per cent in 2003, the South Asian share is still the second highest in the world (after sub-Saharan

¹⁹ See section on social protection in ILO: *Decent work in Asia: Reporting on results 2001-04*, Report of the Director-General, Vol. I, 14th Asian Regional Meeting, Busan, Oct. 2005.

²⁰ UNESCAP: *Economic and social survey of Asia and the Pacific 2004 – Asia-Pacific economies: Sustaining growth and tackling poverty* (New York, 2004), pp. 245-246.

Africa).²¹ In the Pacific, although data are unreliable, more than 25 per cent of the population are believed to be living in poverty in Fiji, Kiribati, Micronesia, Papua New Guinea, Solomon Islands, Democratic Republic of Timor-Leste and Vanuatu.²² In West Asia, the proportion of the population living on less than US\$1 a day has been around 10 per cent in Jordan and 40 per cent in Yemen, for example.²³

The incidence of poverty is higher in rural than urban areas. Asia alone has two-thirds of the world's rural poor, mainly concentrated in South Asia.²⁴ Even in a smaller country like Cambodia, rural poverty incidence is more than double the urban rate.²⁵ In large countries such as China and Indonesia, poverty has declined rapidly in urban areas but is still widespread in the countryside.

The crux of the problem: The “working poor”

Poverty linked to low productivity

MDG1 is based on poverty according to the international thresholds of US\$1 and US\$2 a day and also on national poverty lines. In addition to poverty on a per capita basis, it is critical to examine poverty among workers – the concept of “working poverty”. In Asia, as in other developing regions where no efficient social protection schemes or social safety nets exist, the poor cannot afford to be openly unemployed and must work in order to survive and support their families. The problem, therefore, is not so much the absence of economic activity as the low productivity and low remuneration of that activity. Most poor people are working – and most likely working very hard and long hours – but in low-productivity jobs where they do not earn enough to support themselves and their families. If people working in poverty were able to earn more from their work, then poverty would decline – this is why the report emphasizes decent and productive employment as an Asian goal and as the sustainable route out of poverty.

The concept of the “working poor” has been defined as the proportion of employed persons living in a household whose members are estimated to be below the poverty line.²⁶ In 2003, the share of workers living on less than US\$1 a day out of total employment was 2.9 per cent in the Middle East and North Africa, 11.3 per cent in South-East Asia, 17 per cent in East Asia and 38.1 per cent in South Asia. Taking the US\$2 a day poverty line, 87.5 per cent of the workers in South Asia did not earn enough to lift themselves and their families out of poverty (58.8 per cent in South-East Asia, 49.2 per cent in East Asia and 30.4 per cent in the Middle East and North Africa).²⁷

Poverty has a woman's face

Of the 767 million poor living on less than US\$1 a day, the majority are women. The “feminization of poverty” implies that: (a) women have a higher incidence of poverty than men; (b) women's poverty is more severe than that of men; and (c) there is a trend towards greater poverty among women, particularly associated with the rising rates of female headship of households. Many women, especially those in rural areas, have been more adversely af-

²¹ ILO: *World Employment Report 2004-05: Employment, productivity and poverty reduction* (Geneva, 2005), p. 54.

²² ADB: *Responding to the priorities of the poor*, op. cit., p. 5.

²³ United Nations Development Programme (UNDP): *The Millennium Development Goals in Arab countries – Towards 2015: Achievements and aspirations* (New York, Dec. 2003), p. 5.

²⁴ UNESCAP: *Sustainable social development in a period of rapid globalization*, op. cit., p. 52.

²⁵ idem: *Economic and social survey of Asia and the Pacific 2005: Dealing with shocks* (New York, 2005), p. 194.

²⁶ ILO: *Key indicators of the labour market (KILM)*, Third Edition (Geneva, 2003), p. 722. See also N. Majid: *The size of the working poor population in developing countries*, Employment Paper 2001/16, at www.ilo.org/public/english/employment/strat/publ/ep01-16.htm.

²⁷ ILO: *World Employment Report 2004-05*, op. cit., table 1.2, p. 24.

affected than men by the impact of trade liberalization on their production and consumption, by financial crises and by cuts in social and labour protection. Deep-rooted gender inequalities have been slow to change: women are still mainly responsible for care work and there are persistent and sizeable gender earnings gaps.

Most calamities tend to hit the poor the hardest. They are the ones who are located in the most disaster-prone areas, live in the most flimsy shelters, are vulnerable to low crop prices and unemployment in times of crisis and have no safety nets to fall back on. Furthermore, since they are already at the margins of subsistence, even a small external shock is sufficient to threaten their very survival. But it is not just the extremely poor who are vulnerable. During the financial crisis of 1997-98, some 30 million suddenly became poor. In the Republic of Korea, 64 per cent of the 6 million-strong middle class slid into the low income bracket, creating a group of “new” or “transitional poor”.²⁸

The tsunami disaster of 26 December 2004 underscored the continuing challenge of poverty and also highlighted the importance of addressing vulnerability to achieve a sustainable reduction in poverty. According to ADB estimates, close to 1.5 million people joined the ranks of the “new poor” in the tsunami catastrophe, in addition to loss of livelihoods of people on the brink of poverty (see box 2.3).

Poverty is also linked with conflict. In Iraq, for instance, per capita GDP dropped from approximately US\$5,000 in the 1980s to around US\$1,000 in the 1990s. With more than 40 per cent of the labour force now unemployed, poverty has risen very sharply. Conditions are also bleak in the occupied Arab territories, with a “relaxed unemployment rate” (including discouraged workers) of 32.6 per cent in 2004.²⁹

The challenge of poverty reduction cannot be disassociated from that of equity. High inequality constrains economic growth and places obstacles in the way of poverty reduction. Available data indicate that income inequality has been increasing in many Asian countries.³⁰

West Asia displays the greatest income inequality between social entities or groups linked to external markets through oil and those that have become marginalized. One concern in the region is that those marginalized from development and the distribution of wealth will increasingly distinguish themselves culturally from those that develop western values and may invoke their indigenous culture in the quest for equality.³¹

Examples can be quoted from Asian countries to show the link between progress in reducing income inequality and sustained poverty reduction. For instance, Malaysia, after introducing its “New Economic Policy” for economic and social redistribution in the 1970s, succeeded in reducing poverty from around 60 per cent of the population to 18 per cent by the turn of the century.³² A World Bank study on China found that provinces that started the reform period with relatively high inequality faced a double handicap in poverty reduction: they had lower subsequent growth and the poor shared

Poverty is closely linked to vulnerability

Poverty is linked with conflict

Poverty cannot be effectively reduced without addressing rising inequality

²⁸ UNESCAP: *Sustainable social development in a period of rapid globalization*, op. cit., p. 14.

²⁹ ILO: *The situation of workers of the occupied Arab territories*, Report of the Director-General, Appendix, International Labour Conference, 93rd Session, Geneva, 2005.

³⁰ Of 13 economies for which more or less comparable data were available, only four registered slight improvements in income inequality indicators, whereas in the other nine income equality had deteriorated over the last two decades. UNESCAP: *Sustainable social development in a period of rapid globalization*, op. cit., p. 30.

³¹ ESCWA: *Survey of economic and social developments in the ESCWA Region 2004*, op. cit., p. 3.

³² UNESCAP: *Sustainable social development in a period of rapid globalization*, op. cit., p. 32.

Box 2.3.**Poverty impact of the tsunami**

The economic impact of the tsunami of 26 December 2004 is being felt severely at the local and community levels, dragging a significant number of already poor people into deeper poverty. The sudden loss of housing and any other assets and of jobs paralyzed daily activities. The extent and length of recovery depend on the sector affected, and how the recovery process is managed. It may take years for communities to replace the skills lost in a disaster such as a tsunami. The table shows the numbers of poor people who fell below the poverty line as a result of the disaster in five of the countries most affected.

In Indonesia, the poverty impact is geographically concentrated in Aceh and North Sumatra and sectorally in agriculture and fisheries. The number of poor people is estimated to have increased by more than 1 million, adding 0.5 percentage point to the national head count ratio (HCR).

In Sri Lanka, the disaster hit fishing communities and small-scale traders and other enterprises close to the shore. The associated job losses are significant, especially in the fisheries sector, which accounts for more than 80 per cent of all job losses. The catastrophe is estimated to have increased the number of poor by around 287,000, raising the national HCR by 1.4 percentage points.

In the Maldives, the tsunami caused widespread damage to infrastructure. Tourism and fisheries were hard hit. The national HCR went up sharply from 22 to 35 per cent, reflecting an increase of 39,000 poor.

The number of poor in India is estimated to have increased by 644,000 in the affected states of Andhra Pradesh, Kerala, Pondicherry and Tamil Nadu and the islands of Andaman and Nicobar. This substantial number does not significantly change the national HCR because of India's very large population.

In Thailand, the number of poor is estimated to have increased by around 24,000.

The tsunami also has an impact on people in affected areas who were below the poverty line before

the disaster struck. Many have sunk deeper into poverty because essential goods and basic services, such as sanitation and health, are in shorter supply.

Despite the huge scale of loss of human life, homelessness and displaced populations, the macroeconomic impact of the impact has been limited, mainly because the damage was largely confined to rural areas rather than key economic and densely populated urban centres and industrial hubs. But the impact on poverty has been huge, and effective and quick responses are crucial to minimize the poverty impact. Central and local governments, as well as the international community, need to work together to overcome immediate and longer term problems. At the macro level, governments should commit to sound macroeconomic management in an attempt to produce a V-shaped recovery, since the longer the recovery process, the worse the effect on the poor will be. At the sectoral level, local participation in decision-making will help identify and prioritize the most needed programmes. Efforts to establish independent authorities to ensure transparent use of recovery funds can speed recovery because they enable better implementation of programmes. Well-targeted programmes by governments are needed to achieve, among other things, employment generation and provision of schools and health centres. Employment generation through public works programmes can provide income, build socially useful infrastructure and resume the growth process.

More broadly, the inflow of aid and the engagement of governments in the affected countries in the planning and implementation of rehabilitation programmes provide an opportunity to reinvigorate a general push to build infrastructure, to develop regional cooperation on an early warning system on earthquakes and tsunamis, and to pull out of poverty not only those who were made poor by the 26 December disaster, but also those who were already poor – in other words, to “build back better”.

Poverty indicators and poverty impacts of the tsunami

Country	Base year	Total population (000)	Number of poor (000)	National HCR (%)	Additional poor (000)	New national HCR (%)
Indonesia	2002	212 000	38 584	18.2	1 035	18.7
Sri Lanka	1995	17 280	4 355	25.2	287	26.6
Maldives	2004	300	66	22.0	39	35.0
India	1999	1 001 000	261 261	26.1	644	26.2
Thailand	2002	63.430	6 216	9.8	24	9.8

Source: Citigroup: “Asia Pacific Economics: Economic impact of the tsunami” (2005), cited in ADB: *Asian Development Outlook 2005*, op. cit., pp. 20-21.

less in the gains from that growth. Standards that defined poverty 20 years ago may have lost relevance to an economy that quadrupled its mean income over the period – China could well be entering a stage of its development in which it is relative rather than absolute poverty that is the more important concern.³³

The employment challenge

Pressure for more and better jobs

Given the huge number of new entrants into the labour force, a high incidence of working poverty and labour markets increasingly dependent on rapid shifts in the global production of goods and services, Asia's greatest challenge is to create enough decent and productive jobs, especially for youth and women.

The challenge is to enhance not only the quantity but, very importantly, the quality of employment. The high proportion of working poor among the total employed in Asia makes it absolutely essential that productivity be increased if there is to be sustained poverty reduction. It is also critical that attention be given to protection of workers' safety and health, especially under conditions where rapid globalization may be resulting in intensified and new occupational safety and health hazards – “Decent work must be safe work”. According to ILO estimates, some 1 million workers are killed annually by work-related accidents and diseases in Asia – not to mention the many more whose productivity and quality of life are affected by exposure to poor working conditions and occupational safety and health hazards.

Asia's record of employment creation has failed to match its record of openness and growth. Employment elasticities have been low. ILO estimates indicate that for the 1991-2004 period, employment elasticity of output growth was 0.09 for East Asia, 0.41 for South-East Asia and the Pacific, 0.33 for South Asia and 0.90 for the Middle East and North Africa. A UNESCAP study calculated employment elasticities for a number of Asian economies described as among the more successful new manufactured goods exporters and as the most important destinations for the jobs that are supposedly being relocated to developing countries. That study also concluded that most of the employment elasticities were low: “The preponderance of low elasticities of employment with respect to output points to the fact that the structure of growth under globalization and liberalization has not been adequately conducive to employment expansion”.³⁴

Employment elasticities have been low

Recent trends indicate strong economic growth in *East Asia* not matched by job creation.³⁵ Labour productivity has grown substantially over the past decade (6.3 per cent per year in China, 4.3 per cent in the Republic of Korea, 1.7 per cent in Hong Kong (China)), and the subregion is on track to achieve MDG1. But unemployment has continued to climb in China and the Republic of Korea, where echoes of “jobless growth” are being heard. In the latter country, in particular, this is raising concerns of a “hollowing out” of the manufacturing sector as labour-intensive industries are facing stiff competition from China, where many companies had relocated to take advantage of lower labour costs – although, as shown in box 2.4, rising labour costs in China may

³³ M. Ravallion; S. Chen: “Learning from success: Understanding China's (uneven) progress against poverty”, in *Finance and Development* (Washington, DC) Dec. 2004, pp. 16-19.

³⁴ UNESCAP: *Sustainable social development in a period of rapid globalization*, op. cit., pp. 72-75.

³⁵ The paragraphs on employment trends in the different subregions are summarized from ILO: *World Employment Report 2004-05*, op. cit., section 1.2; ILO: *Global Employment Trends*, (Geneva, 2004); and ILO: *Global Employment Trends Brief, February 2005*, at: www.ilo.org/trends.

Box 2.4.**Labour shortage and rising costs: Is China losing its competitiveness?**

Can China – population 1.3 billion – really be running out of workers? In many of the most important parts of its booming economy, the answer, increasingly, is yes. In south-east China, it is estimated that there is a labour shortage of 2 million. The shortage is fast affecting the image of China as a source of cheap labour and threatening the export processing zones along the coast that have been the foundation for global production. Firms in the south are complaining that they cannot recruit enough cheap factory and manual workers. The situation is expected to get worse as the demographic transition proceeds faster on the one hand and, on the other hand, if factories keep opening at the current breakneck pace.

These shortages have pushed up minimum wages to levels equivalent to those in Thailand and way above levels in Bangladesh, Viet Nam, Cambodia and Indonesia. Chinese workers in a sneaker factory earn 30 per cent more than their counterparts in Viet Nam and 15 per cent more than in Indonesia. In addition to wage increases, companies in China are offering a wide range of supplemental benefits to retain workers. Other large companies are moving production to lower cost countries such as Viet Nam, or to inland China, where labour is cheaper. The rising costs are leading to growing concerns over how China can maintain a competitive position in global production systems.

The reasons behind the labour shortages are worth noting. Very significantly, the shortages are linked to the lack of specific skills and training – so that experienced skilled workers are able to strongly leverage job offers. For every experienced skilled worker there are 88 vacancies, and for every factory technician there are 16 vacancies. A related reason is that factories have not invested in the training of workers – “there is a practice of using workers but not developing them” – mainly because they do not expect the workers, who are migrants from rural areas, to stay long with the company (on average 2.1 years before moving on to other jobs).

The structure of special economic zones in the coastal areas supplied by migrant labour is increasingly difficult to sustain. Although there are still plenty of underemployed workers in the countryside, they are increasingly realistic about the “migrant dream” (in part because of the rapid spread of ICT) and less willing to travel thousands of kilometres to be far away from their families and to work very long hours in monotonous jobs.

The market is even tighter for skilled labour and executive talent. Skilled workers and technicians are taking advantage of acute shortages to demand double-digit salary increases. One in ten executives in Shenzhen and one in 12 in Beijing changed jobs last year. Recruitment, retention and localization of staff are now top of the agenda for many firms in China.

Source: T. Fuller: “Worker shortage in China: Are higher prices ahead?”, in *International Herald Tribune*, 20 Apr. 2005; idem: “The Workplace: Shoemaker, its workers and today’s global labor”, *ibid.*; “China’s people problem”, in *The Economist*, 14 Apr. 2005.

mean it is increasingly not “cheap” to do business there. In looking at box 2.4, however, it is important to point out that more detailed research is needed to confirm the phenomenon of rising real unit labour costs, and also that low labour costs are not the only reason for foreign investment in China. Another important reason is to serve the large domestic market.³⁶

In *South-East Asia and the Pacific*, unemployment rates are over two percentage points higher and the employment-to-population ratio is lower than it was ten years ago. More important than the unemployment rate (which

³⁶ For example, one estimate is that 70 per cent of the products of the United States MNEs in China are sold in the Chinese market, while the rest is exported.

at 6.3 per cent in 2003 was still comparatively lower than in many other parts of the world) is the underemployment rate, which is estimated to be high, notably in Indonesia and the Philippines, and which helps to account for the relatively high proportion of working poor. There are huge differentials in value added per worker, especially in the agricultural sector. Whereas the South-East Asian countries have already met or are close to achieving MDG 1, the Pacific island countries are less likely to do so.

The tsunami at the end of 2004 has also had a serious impact on jobs and livelihoods.³⁷ In Indonesia, over 600,000 workers lost their jobs and sources of income and the unemployment rate could rise temporarily from 6 to 30 per cent or higher in the affected areas. In Sri Lanka, over 400,000 workers were thrown into poverty by job losses and other disruptions and the unemployment rate is projected at 20 per cent or higher. In Thailand, 30,000 households dependent on fisheries and over 90,000 dependent on tourism lost their means of livelihood. In India, estimates suggest that some 2.7 million people lost their jobs or livelihoods.

The impact of the tsunami on job losses

In *South Asia*, unemployment rates and employment-to-population ratios have not changed much over the past ten years. There have been improvements in terms of productivity growth and solid GDP growth rates – which did help to create some jobs, but barely enough for the new entrants to the labour force. Most of the employment created is in the informal economy. The high-productivity sectors absorbed very little of the expanding labour force. Overall, the number of working poor increased during this period and now accounts for 40 per cent of the total number of employed. The goal of halving US\$1 per day poverty is reachable, but it would take growth rates over 10 per cent – beyond historical rates – to halve the share of US\$2 a day working poverty in total employment by 2015.

West Asia faces tremendous labour market pressures – with overall unemployment rates hovering around 12 per cent for at least the past decade, with the highest levels of youth unemployment in the world, and with a fast-growing young population entering the labour force every year. Productivity gains have been rather low relative to other parts of Asia.³⁸ The oil-producing countries have much higher labour productivity than non-oil-producing countries. It has been estimated that close to 100 million jobs will be needed by 2020, a doubling of the current level of employment, if West Asia is to provide adequate jobs for the new entrants to the labour force and the current unemployed.³⁹

Changing composition of employment

The employment patterns in developing Asia show marked sectoral shifts (figure 2.3).⁴⁰ There have been sizeable declines in the share of agricultural employment in China, the Republic of Korea, Cambodia, Indonesia, Malaysia, the Philippines, Thailand and Pakistan – many of these among the most rapidly growing economies in the region. At the same time, some Asian

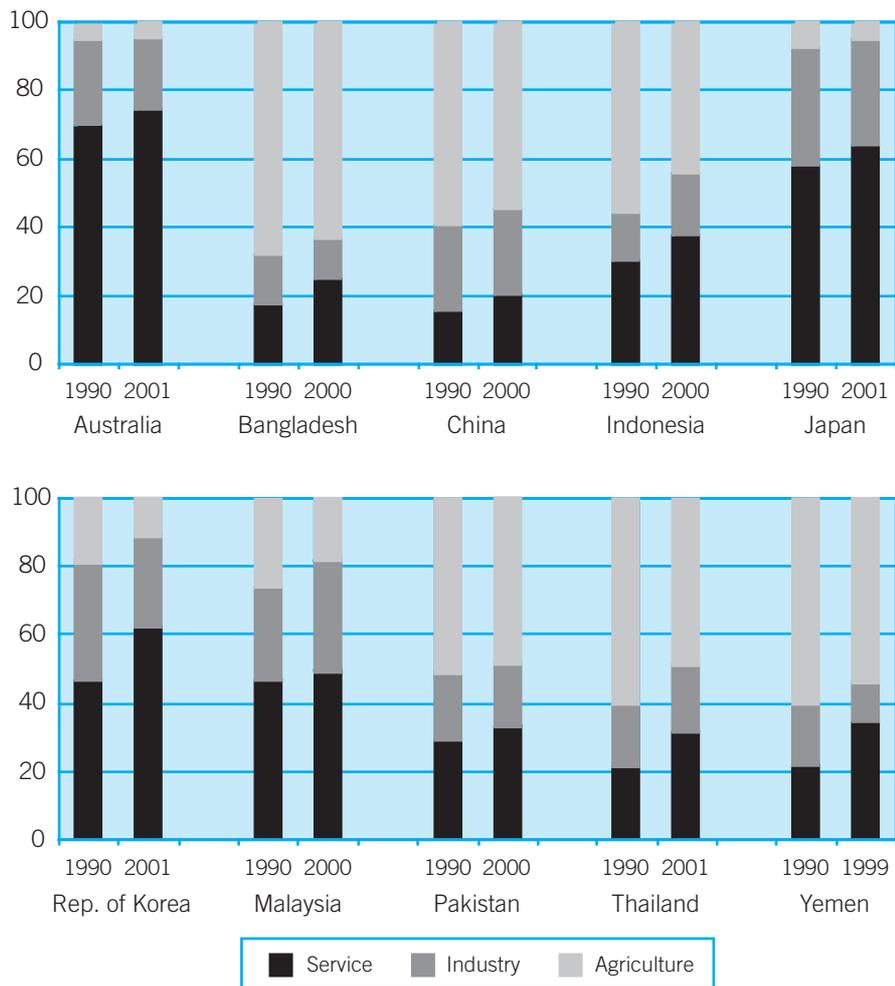
³⁷ ILO: *Report of the Director-General: Fourth Supplementary Report: ILO response to the earthquake and tsunami disaster in the Indian Ocean*, document GB.292/16/4, Governing Body, 292nd Session, Geneva, 2005.

³⁸ “The story of [the Middle East and North Africa] in the 1990s is of weak output performance in the face of rapid labor force growth, with the result that output per laborer barely improved – if at all”. World Bank: *Unlocking the employment potential in the Middle East and North Africa*, op. cit., p. 6.

³⁹ *ibid.*, p. 1.

⁴⁰ The agricultural sector comprises agriculture, hunting, forestry and fishing. The industry sector covers mining and quarrying, manufacturing, construction and public utilities. The services sector consists of wholesale and retail trade, restaurants and hotels, transport, storage and communications, finance, insurance, real estate and business services and community, social and personal services.

Figure 2.3. Percentage change in employment by major economic sector in selected countries between 1990 and 2000/2001



Source: ILO: *Key indicators of the labour market*, Third Edition, op. cit.

countries – the Republic of Korea, Mongolia, Singapore and Japan – experienced a decrease in the share of industrial employment. On the other hand, employment in the services sector has increased in China, the Republic of Korea, Malaysia, the Philippines, Singapore, Thailand and Japan.

Output growth in manufacturing, employment growth in services

Thus, the process of economic development in these countries has been characterized not by industrialization as such with regard to employment, but rather by a shift in the share of employment from agriculture to services. Output growth has occurred in manufacturing, but employment growth has taken place in services. The cases of China and Malaysia are particularly striking. In both these countries, output has become increasingly industrialized whereas employment has become increasingly service-oriented.⁴¹ In

⁴¹ Over the period 1993-2002 in Malaysia, the share of industrial output in GDP increased by 7.3 percentage points but the share of industrial employment remained unchanged. The share of services output declined by 2.5 percentage points but the share of services employment increased by 6.2 percentage points. In China, the share of industrial output increased by 3.7 percentage points but the industrial employment share fell by 2.1 percentage points, and the share of services output increased by just 0.8 percentage points while the share of services employment increased by 7.8 percentage points (the sectoral data for China, however, are more difficult to interpret since they do not include employment “not adequately defined”, which accounted for 24.9 per cent in 2001).

West Asia, too, the agricultural sector has been shedding workers and no longer absorbing surplus labour, employment in manufacturing has remained stagnant, and the services sector has been playing the leading role in labour absorption.⁴²

Restructuring in the Asian economies has also involved growth of the informal economy. Global competition and technological advances have increasingly led MNEs to subcontract or outsource the production of components and inputs to first-, second- and third-tier suppliers. Many of those at the lower end of global production systems work in microenterprises or are homeworkers in the informal economy. Decent work deficits characterize the informal economy in terms of poor-quality, unproductive and unremunerative jobs that are not recognized or protected by law and that offer little or no social protection, absence of rights at work and lack of representation and voice. Although the links are not always simple,⁴³ there is no denying that it is poverty that forces most people to take up unattractive jobs in the informal economy and that the low incomes that such jobs yield create a vicious cycle of poverty.

Employment concentrated in the informal economy

Definitional issues and the lack of comprehensive reliable data complicate measurement of the informal economy.⁴⁴ Nonetheless, available data indicate that informal employment comprises some 65 per cent of non-agricultural employment in Asia (as compared to 48 per cent in North Africa, and 51 per cent in Latin America and 72 per cent in sub-Saharan Africa). In the Asian countries for which data are available, informal employment as a share of non-agricultural employment ranges from 83 per cent in India, 78 per cent in Indonesia, 72 per cent in the Philippines, and 51 per cent in Thailand to 42 per cent in the Syrian Arab Republic.

Those in the informal economy are either self-employed in informal enterprises that are small and/or unregistered, or are hired for wages in informal jobs. Little quantitative information is available on informal wage workers, who include casual day labourers, domestic workers, industrial outworkers (notably homeworkers), undeclared workers, and part-time or temporary workers without secure contracts, worker benefits or social protection. But statistics on self-employment show an increase between 1980 and 2000 from about one-quarter to about one-third of total non-agricultural employment, with the increase greatest in South Asia (from 40 to 50 per cent) and in West Asia (from 13 to 24 per cent). Outside of agriculture, self-employment is more predominant in trade (44 per cent) than in services (29 per cent) or industry (27 per cent).⁴⁵

The youth employment challenge

Rising unemployment in Asia, as in other parts of the world, has hit young people hard. Current evidence shows that the subregions with the largest shares of youth within the working-age population (West Asia and South Asia) fare worst in terms of youth unemployment (figure 2.4). Although young people are increasingly likely to stay longer in the educational system and their labour force participation rates have been tending to decline, the pressure on job creation has intensified.

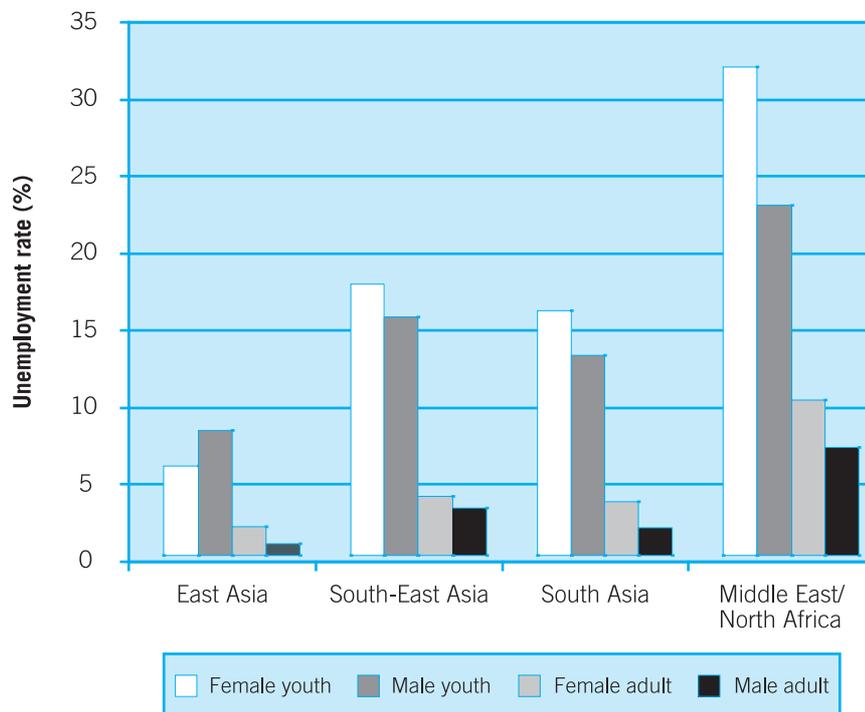
⁴² World Bank: *Unlocking the employment potential in the Middle East and North Africa*, op. cit., p. 104.

⁴³ ILO: *Decent work and the informal economy*, Report VI, International Labour Conference, 90th Session, Geneva, 2002, p. 31.

⁴⁴ See, for instance, ILO: *Key indicators of the labour market*, op. cit., pp. 260-265; and ILO: *Women and men in the informal economy: A statistical picture* (Geneva, 2002).

⁴⁵ ILO: *Women and men in the informal economy*, op. cit., pp. 22-23.

Figure 2.4. Unemployment rates of youth and adults by subregion and gender, 2003



Source: ILO: *Global employment trends for youth* (Geneva, 2004), figure 5.

In addition to accounting for more than 60 per cent of the child labour in the world (see box 2.5), Asia also has 52.2 per cent of the world's young people without work. In 2003, 46.4 million young people in Asia were unemployed.⁴⁶ At 25.6 per cent in 2003, the youth unemployment rate in West Asia is the highest in the world. The challenge of productive employment for young people is greatest for West Asia, especially since it is also experiencing the fastest-growing labour force of any region in the world. Another related problem is the high level of unemployment among the graduates of intermediate and higher education in West Asia.⁴⁷

Over the period 1993-2003, the youth unemployment rate rose from 4.8 to 7 per cent in East Asia, from 8.8 to 16.4 per cent in South-East Asia and from 12.8 to 13.9 per cent in South Asia. In some of the Pacific island countries, there are up to seven times as many young people seeking work each year as there are new jobs available.⁴⁸

Youth, especially young women, much more likely to be unemployed than adults

The ratios of youth-to-adult unemployment rates are a good quantifier of the different outcomes between young and adult workers. In East Asia, a young person's risk of being unemployed was three times as high as that of adults in 2003. In South-East Asia, the ratio of the youth-to-adult unemployment rate increased from 3.9 to 4.8 in the 1993-2003 decade. South Asia had the largest differential, with youth almost six times more likely to be unemployed than adults. In West Asia, the differential was 3.3.

⁴⁶ Data from ILO: *Global employment trends for youth* (Geneva, Aug. 2004).

⁴⁷ World Bank: *Unlocking the employment potential in the Middle East and North Africa*, op. cit., pp. 92-93.

⁴⁸ UNESCAP: *Sustainable social development in a period of rapid globalization*, op. cit., p. 90.

Box 2.5.**Child labour in the Asia-Pacific Region**

In the Asia and Pacific region (excluding West Asia), there are an estimated 127 million working children under the age of 15, the largest number of working children in this age group among the regions of the world (in 2000, the total number of working children in the world in the age group 5-14 years was estimated at 211 million). The actual number of child workers would be much higher if one included those children in the worst forms of child labour in the 15-17 age group. At too young an age, they work long hours, often every day of the week, in mines, in agriculture, in construction and in brick kilns, in fisheries and car repair workshops, in homes and in brothels.

Factors that contribute to child labour include family poverty and illiteracy, lack of awareness, lack of access to basic and quality education and skills, high rates of adult unemployment and under-employment, the demand for cheap labour by some economic sectors, gender discrimination, recruitment during political and armed conflicts, natural disasters and crises.

Efforts for eradication at the earliest possible date focus on:

1. *Unconditional worst forms of child labour* that are so fundamentally at odds with children's basic human rights that they are absolutely prohibited for all persons under the age of 18 years. At least 6.6 million children in Asia are victims of these worst forms of

child labour, including all forms of slavery-like practices, use of children in illicit activities, trafficking, prostitution, pornography, and recruitment of children during armed conflict;

2. *Child labour in hazardous work*, as defined by national legislation, which may be in legal activities but is nonetheless damaging to the health, development and well-being of children. The hazardous sectors common in the Asia-Pacific region include work in agriculture, small-scale manufacturing, mining, fishing, construction, services, brick making, stone quarrying, fireworks production, transportation, lock making, glassware production, surgical instruments, carpet weaving, and match factories. Worldwide, approximately 171 million of the total 246 million working children are exposed to hazardous work. The ILO estimated that 104 million children in Asia aged 5-17 and 62 million aged 5-14 are engaged in work that is considered hazardous. In the 5-14 age group there is almost no gender difference, but in the 15-17 age group, 57 per cent are boys and 43 per cent girls. Some countries in Asia have estimated the number of children who work in hazardous sectors. For example, in the Philippines, 2.4 million out of 4 million working children aged 5-17 were exposed to hazardous work. In India 2 million children work in hazardous industries.

Some national estimates of working children

Country	Working children (5-14 years) (millions)	Working children (15-17 years) (millions)	Year of latest estimate
Bangladesh	4.69	2.73	2002-03
Cambodia	1.516	0.76	2001
India	11.28	n.a.	1991
Indonesia	1.437	3.439	1999
Nepal	1.98	n.a.	1998-99
Mongolia	0.037	0.032	2002-03
Philippines	2.18	1.84	2001
Sri Lanka	0.48	0.45	1999
Pakistan	3.3	n.a.	1996

n.a.: not available.

Sources: ILO: *Every child counts: New global estimates on child labour* (Geneva, 2002); ILO: *A future without child labour*, Global Report under the Follow-up to the ILO Declaration on Fundamental Principles and Rights at Work, Report I(B), International Labour Conference, 90th Session, Geneva, 2002. See also ILO: *Combating child labour in Asia and the Pacific: Progress made and challenges*, Report to the 14th Asian Regional Meeting, 2005.

Young women are much more likely than young men to be unemployed. It is only in East Asia that young women have lower unemployment rates than young men (5.8 as compared to 8.1 per cent). In other parts of Asia, as shown in figure 2.4, the gender differential in the unemployment rate is 2.1 percentage points in South-East Asia, 2.9 percentage points in South Asia and especially high in West Asia – 9 percentage points.

Underemployment, discouragement, “brain drain” and trading down among young people

Open unemployment, however, is only the tip of the iceberg. Discouragement has been increasing; difficult labour market conditions are leading young people, in particular young women, to give up looking for a job and stay out of the labour market – even though they are able and willing to work if offered a job. The larger reality is that without social security and without families able to support them, or with families they have to support, most young people cannot afford the luxury of being openly unemployed or being discouraged workers. They have no choice but to find whatever work or source of livelihood they can. Such work tends to be either in low-productivity, low-paying services in the hotel and tourism industry, fast-food industry, retail sales, call centres and teleworking, agriculture or other forms of precarious informal employment. Many young people have been forced to “trade down” and accept inferior forms of employment relative to their level of education – this mismatch between education and employment represents a waste of human resource investments. There is also a significant overlap with child labour of those aged 15-17 years of age, many of whom are in the worst forms of child labour.

Young people make up the bulk of the migrants streaming into towns and cities from the rural areas in search of jobs. Growing numbers of young Asian women are also going abroad to work, mainly in domestic service, labour-intensive manufacturing and the entertainment industry. Their exposure to exploitation and abuse, including being trafficked, is a concern that is increasingly high on national and international agendas. At the other end of the scale, youth also account for a large part of the “brain drain” of educated and skilled labour migrants to the West. The South-to-North migration of the young labour force is depriving sending countries of their investment in human capital.

Women’s employment

Feminization of employment has slowed down or been reversed

In the earlier years of globalization in Asia, women were seen to be major beneficiaries because of the trend towards the feminization of employment, especially in export production. The period 1985-97 saw a massive increase in the labour force participation of women, especially in East and South-East Asian countries that were experiencing rapid industrialization and globalization. As a consequence, the gender gap narrowed, at least in terms of quantitative involvement.

However, feminization of work appears to have peaked somewhere in the early 1990s. Since then the process has been not only less marked but may also have actually begun to fade even before the effects of the 1997 financial crisis began to be felt.⁴⁹ When the financial crisis hit, the very features that had made women workers more attractive to employers – flexibility in hiring and firing and the more casual, non-unionized nature of their labour contracts – made them much more vulnerable than male workers to losing their jobs.

The “official” indicator for measuring progress towards achievement of MDG3 on gender equality and empowerment of women is the female share

⁴⁹ UNESCAP: *Sustainable social development in a period of rapid globalization*, op. cit., p. 95.

of non-agricultural wage employment. In Asia and the Pacific, data are available only for 12 out of 27 countries; and women's share ranges from close to half in countries such as Thailand and Sri Lanka, to around 40 per cent in China, the Philippines, the Republic of Korea and Indonesia, to lows of less than one-fifth or one-tenth in South Asia and West Asia.⁵⁰

However, this "official" indicator is inadequate for reflecting the actual situation of women's employment. For a start, informal employment accounts for a high proportion of non-agricultural employment, and women's informal employment is mainly self-employment rather than wage work. The proportion of women in non-agricultural employment who are self-employed has been increasing faster than the proportion for men – it is not clear from the data whether this reflects the greater difficulties women face in finding other types of employment, which means they have to "create" their own work to survive.

A number of additional indicators show that Asian countries have made better progress towards the education component rather than the employment component of MDG3. In education, many of the Asian countries, except in South Asia, have achieved gender equality in secondary school education and have more girls enrolled than boys. There have also been significant improvements in the literacy of young women, especially in West Asia, but women's literacy rates are still much lower than those of men in South Asia.⁵¹

Better progress in education than in employment for MDG3 on gender equality and women's empowerment

Looking at the gender dimensions of working conditions, the challenge is still huge. The trend towards the feminization of employment has been linked to employers' search in an increasingly competitive environment for workers who are "more tractable and subservient to managerial authority, less prone to organize into unions, more willing to accept lower wages because of their own lower reservation and aspiration wages and easier to dismiss using life cycle criteria such as marriage and childbirth".⁵²

The gender gap in wages has not narrowed.⁵³ Women account for two-thirds of the working poor in Asia; they are much more vulnerable than men to loss of jobs and livelihoods in a crisis situation. Unemployment and discouragement tend to be higher among women than men. Unemployment rates for West Asia as a whole are nearly 50 per cent higher for women than for men. Self-employed women lack organization and voice and face greater difficulties compared to men in gaining access to productive resources and new technologies. Deep-rooted gender inequalities have been slow to change: women are still mainly responsible for unpaid care work.

The labour migration challenge

Growth of labour migration

One of the major challenges for employment and labour policy is labour migration. Demographic trends and the patterns of uneven development in Asia suggest that labour migration will not only continue but will also grow. Depending on how well it is managed, the rising mobility of the region's human resources, both skilled and unskilled, can become a unique source of comparative advantage in an increasingly competitive global environment.

⁵⁰ United Nations Development Fund for Women (UNIFEM): *Progress of the world's women 2002: Gender equality and the Millennium Development Goals*, Vol. 2 (New York, 2002), Table 4, pp. 32-33.

⁵¹ *ibid.*, pp. 14-29.

⁵² UNESCAP: *Sustainable social development in a period of rapid globalization*, *op. cit.*, p. 94.

⁵³ See ILO: *Labour and social trends in Asia and the Pacific*, *op. cit.*

Over the past two decades, gross emigration of labour rose at an annual rate of 6 per cent for the Asian region as a whole.⁵⁴ This means an increase in migration over two times faster on average than the growth of the labour force of the origin countries. Asia itself absorbed an increasing proportion of the 2.6 million Asian workers who left their homes each year to work abroad between 1995 and 2000. Some 1.4 million migrant workers headed for Japan, Taiwan (China), the Republic of Korea, Hong Kong (China), Singapore and Malaysia. Because of proximity and earlier migration ties, workers on the Indian subcontinent still largely went to Saudi Arabia, Kuwait and the other Gulf Cooperation Council (GCC) States, but there has been a notable rise in the number of Bangladeshi plantation workers in Malaysia, Sri Lankan domestic helpers in Singapore, and Nepalese construction workers in the Republic of Korea. At the same time, Thailand's long land frontiers with Myanmar and the Lao People's Democratic Republic became an active migration front as the country's per capita income jumped far ahead of those of its immediate neighbours. Figure 2.5 shows the size of the Asian migrant workforce in selected Asian countries and areas around the year 2000.

Asian migrant workers represented anywhere from 40 to 70 per cent of the labour force of the member States of the GCC. In the major receiving countries in East Asia, they accounted for over 4.2 per cent of the latter's combined labour force. In Singapore, migrants make up for 28 per cent of the labour force. These percentages all translate into huge numbers. What is also striking is the rather high growth rate of the migrant worker population in each country, even during a period marked by an unprecedented financial crisis.

The growth of labour outflows reported by some countries of origin has been remarkable. In Indonesia, annual labour outflows in the early 1980s were estimated at a mere 36,000. By the late 1990s this had risen to almost 400,000 a year. Labour emigration from Bangladesh grew from 103,000 in 1990 to 381,000 in 1997; in Sri Lanka from 125,000 in 1992 to 180,000 in 1999. The Philippines still remained the largest supplier of labour: the annual outflow to all destinations at the turn of the century represented about 1.4 per cent of the labour force.

Some countries in Asia are both a source and destination of migrants. Thailand, for example, receives many unskilled migrants from Myanmar, Cambodia and the Lao People's Democratic Republic but also sends its own people to other countries and areas including Israel, Japan and Taiwan (China).

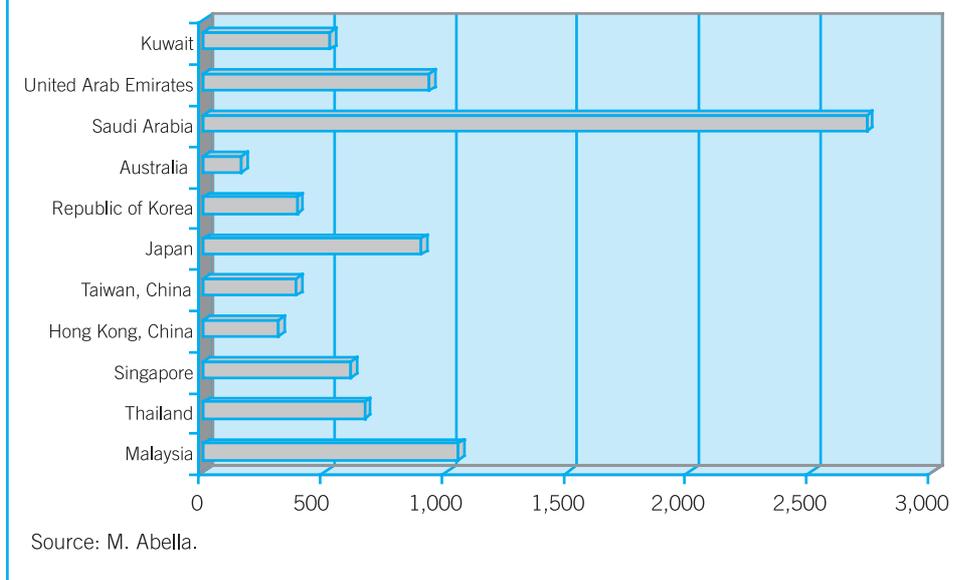
Migrant workers concentrate at the bottom and top of the employment ladder

The majority of Asian migrant workers are at the bottom of the employment ladder, doing the dirty, dangerous and difficult – “3 D” – jobs that are shunned by locals and that, once they become “migrant jobs”, tend to remain migrant jobs. These include jobs in commercial agriculture, construction, labour-intensive manufacturing, domestic service and cleaning and catering services.

At the other end of the scale, Asian migrants are professionals and highly skilled technicians – Filipino nurses and teachers moving to West Asia and the industrialized countries, Bangladeshi doctors moving to Malaysia, Indian software engineers and designers moving to the United States – making up the “brain drain” from their countries of origin. Also contributing to the brain drain are young Asians who went overseas to study and then stayed on in the country of study. Between 1990 and 1999, the stay-on rates of foreign science

⁵⁴ M. Abella: “Driving forces of labour migration in Asia”, Ch. 11 of International Organization for Migration (IOM): *World Migration 2003: Managing migration challenges and responses for people on the move* (Geneva, 2003).

Figure 2.5. Asian migrant workers in selected Asian countries and areas, around 2000 (thousands)



and engineering PhD graduates in the United States were 87 per cent for students from China, 82 per cent from India and 39 per cent from the Republic of Korea.⁵⁵

With Asian companies increasingly engaged in outward investment and becoming multinational, Asians also represent growing proportions of the “intra-company transferees” in the more dynamic regions of Asia and other parts of the world. Asian professionals and managers are increasingly engaged in the mobility within the internal labour markets of MNEs in the course of expanding trade and FDI.

A global trend towards the feminization of labour migration is most evident in Asia. By 2000, the number of female migrants was estimated to have surpassed the number of male migrant stock in East and South-East Asia (5 million versus 4.9 million). The 7.6 million female migrants in West Asia were estimated to constitute 48 per cent of all migrants in that region. The main destinations, other than West Asia, are Hong Kong (China), Malaysia and Singapore; while the main source countries are Indonesia, the Philippines, Sri Lanka and Thailand, where women account for at least two-thirds of migrant labour.

Feminization of Asian labour migration

Asian female labour migration is strongly concentrated in a very limited number of female-dominated occupations, which are associated with traditional gender roles, mainly domestic work and the “entertainment” industry.⁵⁶ While these jobs do not necessarily have to be exploitative, the circumstances of the job itself often lead to a high degree of vulnerability to abuse and exploitation. The significance of women migrants in domestic work can be judged from the fact that in Hong Kong (China), they numbered more than 202,900 in 2000; and that in Malaysia there were 155,000 documented and many more undocumented migrant domestic workers in 2002.

⁵⁵ Organisation for Economic Co-operation and Development (OECD): *International mobility of the highly skilled*, Policy Brief (Paris, 2002).

⁵⁶ ILO: *Preventing discrimination, exploitation, and abuse of women migrant workers: An Information Guide*, Booklet 1, “Introduction: Why the focus on women international migrant workers” (Geneva, 2003).

Issues raised by growing mobility of labour in Asia

The growing mobility of labour raises a number of serious issues for policy-makers in Asia:

- *Productive use of human resources:* The voluntary movement of workers across borders may be seen as a reallocation of the region's human resources from less to more productive employment. While relative wages alone may not accurately reflect relative productivity of labour use, the size of the wage differentials is often such that the benefits from some integration of labour markets are difficult to ignore. The migration of very large numbers of low-skilled labour, often grossly underutilized in their home countries, in search of much more highly paid work in foreign countries, must constitute a significant gain in welfare for all. For the receiving countries, the availability of a large pool of low-cost foreign labour helped enable the dramatic modernization of their physical infrastructure over a very short period of time, stabilized prices during periods of rapid growth, made available all kinds of services at a reduced cost, and made it possible for them to meet ambitious targets for public health and education, not to mention the expansion of major economic sectors.
- *Reducing poverty through migration:* For the source countries, labour migration has been a boon as well; its impact on poverty reduction has been clearly positive. Some of the world's largest recipients of migrants' remittances are in Asia. These remittances have enabled poor migrants' families to have higher standards of living and better education for their children. The investments by migrants in housing have a significant impact on local economies because of their "multiplier effects", and some of the skills acquired abroad have proven helpful for starting new industries at home. For some countries, workers' remittances represent the single most important source of foreign exchange income. Remittances from overseas nationals represented 48 per cent of GDP in Tonga, 21 per cent in Samoa and 13 per cent in Vanuatu in 2002.⁵⁷ The share of migrant remittances in gross national product (GNP) in 2002-03 was 6 per cent in Bangladesh, 3.1 per cent in India, 7 per cent in Pakistan, 6.5 per cent in Sri Lanka, 8.6 per cent in the Philippines, 4.7 per cent in Indonesia and 1.8 per cent in Thailand. Remittances sent to the Middle East and North Africa in 2004 amounted to US\$17 billion, accounting for 13.5 per cent of remittances sent to all developing countries.⁵⁸
- *Growing problem of irregular and clandestine migration:* Large numbers of the migrant workers in Asian countries are in an irregular or undocumented situation. With increasing legal restrictions on entry, stay and employment of foreigners, more and more migrants are in irregular situations, either having entered the destination country through fraudulent or unofficial channels or not having obtained formal residence or employment status. Pakistan and India each have more than 1 million irregular migrants, and other countries like Saudi Arabia, Thailand and Malaysia are not far behind. For the region as a whole, there may be as many as one out of every four migrant workers in an irregular status. In Thailand, the situation reached a critical point in 2000 when it was estimated that there were nearly 5.5 undocumented for each registered foreign worker, prompting the authorities to engage in a large-scale regularization programme. The huge and growing numbers of irregular migrants point to the immense dimensions of the problem of managing

Growing numbers of irregular migrants reflect problem of managing migration and of protection

⁵⁷ ADB: *Responding to the priorities of the poor*, op. cit., p. 48.

⁵⁸ World Bank: *Global development finance 2005: Mobilizing finance and managing vulnerability* (Washington, DC, 2005), pp. 28-29.

migration and the gravity of the problem of protection, since migrants in an irregular status are very vulnerable to exploitation and abuse.

- *Smuggling and trafficking also on the rise:* If they have to travel long distances, irregular migrants often pay for the services of smugglers, who might conceal them in trucks or ships, or supply false documents or bribe immigration officials. Smugglers can charge as much as US\$30,000 to transport workers from East Asia to North America or Europe.⁵⁹ Smugglers provide services to willing customers, acting as extra-legal travel agents. According to the Protocol Against the Smuggling of Migrants by Land, Sea and Air supplementing the United Nations Convention Against Transnational Organized Crime (2000), the “smuggling of migrants” is the procurement of illegal entry of a person into a State of which the person is not a national or permanent resident, in order to obtain, directly or indirectly, a financial or other material benefit. Trafficking, on the other hand, involves the use of violence, coercion or deception to exploit workers, essentially treating people as commodities, and does not require crossing an international border, although the same people or gangs are often involved in both smuggling and trafficking.⁶⁰ Trafficked migrants are the victims, and should not be liable to criminal prosecution.⁶¹ The nature of the phenomenon means that there are no hard statistics. But one important reason for concern over trafficking is that women and girls are much more likely than men and boys to be the victims of trafficking, in particular into prostitution and other forms of sexual exploitation, but also into labour exploitation and contemporary forms of slavery.
- *Keeping temporary migration temporary is a major concern of governments, often leading to measures that violate ILO principles:* The regional migration system is largely built on temporary foreign worker policies, since attitudes to immigration, especially of unskilled labour, remain fairly closed. With the exceptions of Australia and New Zealand, no country in the region considers itself open to permanent immigration except for the highly qualified or for family members of citizens. Where official policy allows it, the employment of unskilled foreign workers is usually based on one-year work permits, which may be renewed. These policies have naturally run up against the interest of migrant workers in remaining longer in better-paying jobs and the interest of employers in keeping their trained workers. Exclusion of temporary worker migrants from membership in social security, tying them to specific employers, restricting their mobility to certain locations, and not allowing family reunification are only a few of the measures usually taken to discourage longer stays by temporary workers.
- *Migration remains a risky and costly undertaking for workers:* Asian labour migration has been largely organized by private intermediaries rather than state-run recruitment agencies. The high degree of commercialization of migration processes in Asia, which is not found in other regions, explains the rapid expansion of the system. But there have been serious problems with fraud and abuse, making migration a high-cost and risky undertaking for many migrant workers. Government-to-government labour agreements covering the supply of migrant labour and providing for their protection have been the exception rather than the

⁵⁹ ILO: *Towards a fair deal for migrant workers in the global economy*, Report VI, International Labour Conference, 92nd Session, Geneva, 2004, para. 40.

⁶⁰ *ibid.*, para. 41.

⁶¹ See the Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children supplementing the United Nations Convention Against Transnational Organized Crime (2000).

rule. The effectiveness of attempts by sending States to impose control over migration processes has been greatly limited by the reluctance or unwillingness of receiving States to enter into agreements. Countries of origin that have taken steps, for example to unilaterally set minimum wage standards for their nationals, have found their nationals priced out of the market.

- *Protecting basic rights:* The right to organize and to bargain collectively is frequently denied to migrant workers through the contracts of employment they sign or by virtue of the operation of agreements entered into by their governments. Migrant workers are often denied the possibility of seeking better employment because there are restrictions on changing employers, even after many years of continuous legal employment. In some countries they find themselves in a situation of virtual slavery because the practice of confiscating passports and travel documents by employers upon the worker's arrival, despite policies to the contrary, is widely tolerated. Worse yet are regulations which make continued stay and employment conditional on a woman migrant worker not becoming pregnant.
- *Conditions of employment:* Legal or regular migrant status is not always a guarantee of protection against discrimination, exploitation, and hazards to health and safety. Studies in different countries have repeatedly revealed that migrant workers are paid much less than native workers (often only half as much) for doing the same job, not to mention their exclusion from social security protection and other worker benefits and entitlements. Being often concentrated in the less regulated sectors of the economy, women migrant workers tend to suffer especially from excessive hours of work without overtime pay, from denial of weekly rest days, and not infrequently even from physical abuse. Governments are not unresponsive to these problems, but few have systems in place (such as labour inspection) to monitor them and to bring solutions.

3. Growing integration among Asian countries

Globalization and regionalization in Asia

Major globalization and regionalization forces are behind the labour market and employment challenges described in the previous chapter. These globalization forces have created opportunities for some and threats for others, divided “winners and losers”, resulted in both job creation and job losses, emphasized the uneven playing field, widened income disparities and raised serious concerns for those unable to compete in fast-paced world markets or exploit the opportunities created by globalization. The less developed countries in Asia have described their experience of globalization as “much talk of markets, but very little real access; much talk of jobs, but somewhere else; and much talk of a better life, but for others.”¹

Interdependence and integration within the region are growing stronger as Asian countries are increasingly exposed to global competition. Trade, investment and financial flows are increasingly intra-Asian. Various types of free trade arrangements are proliferating and often include labour and employment issues. Asian countries are increasingly linked through production systems, driven by the operations of MNEs. The Asian migration system has created a regional labour market. The (sub)regional organizations of member States have been strengthening their integration and cooperation arrangements to better manage globalization challenges collectively; they are increasingly addressing decent work concerns.

A strong regional dimension to Asian trade

Intraregional trade has grown more than sixfold over the last three decades,² partly as a result of higher import demand from within the region, notably from China. The rapidly growing urban middle class in China represents an increasingly important market for the final consumption of goods

Trade within Asia growing faster than trade with the rest of the world

¹ World Commission on the Social Dimension of Globalization: *Dialogues in Asia* (Bangkok, ILO Regional Office for Asia and the Pacific, 2004), p. 26.

² United Nations Conference on Trade and Development (UNCTAD): *Trade and development report 2004* (New York and Geneva, 2004), pp. 45-46.

and services. This phenomenon of rising consumer demand from an expanding and increasingly wealthy urban society has also occurred in other fast-developing countries in Asia, and is a key factor in growing intraregional trade.

The region is a “conveyor belt” to factories in China

However, the reorganization of production processes into regional production networks is a more important factor and has resulted in increased intraregional trade flows of industrial supplies and intermediate goods. Strengthened production-sharing practices within the region and the emergence of China as the main hub of intraregional trade are key features of the Asian scenario.

In recent years, China has run sizeable trade surpluses with the European Union (EU) and the United States but has also run sizeable trade deficits with its nine major East and South-East Asian trading partners.³ These changes reflect shifts in global production systems, with China importing intermediate components from its nine major regional trading partners, having a strong comparative advantage in the downstream stages of manufacturing production, playing a major role as an assembly centre and exporting final goods to non-Asian industrialized economies.

The growing trade and investment between Asia’s two emerging giants, China and India, is also significant, especially for the future. These two countries are increasingly competing side by side, rather than against each other, in a growing range of products, from steel to textiles to information technology-enabled services (ITES). They are also tentatively exploring areas of cooperation, for example as partners for joint purchases in markets such as energy and commercial aircraft: “People used to say it was China and not India, then it was China against India – but if you look at any number of sectors the real story is more likely to be China and India.”⁴ “The impact of the rise of the two giants on the world’s demand for resources, centre of economic gravity and balance of power will be enormous. Adjusting to such changes has always proved difficult. The rise of China and India is likely to pose the biggest challenge of all.”⁵

The largest volume of exports from West Asia continues to be destined for other Asian countries. At the same time, other Asian countries represent the second largest set of exporters to West Asia (coming after the EU). Within West Asia, intraregional trade is very limited. The World Bank is advising West Asia “to make three shifts in its sources of growth: from oil to non-oil sectors; from state-dominated to private, market-oriented investment; and from protected import-substitution to export-oriented activities. Intensifying trade is at the core of all three shifts.”⁶

Has trade openness translated into employment growth?

Several East and South-East Asian economies depend heavily on trade

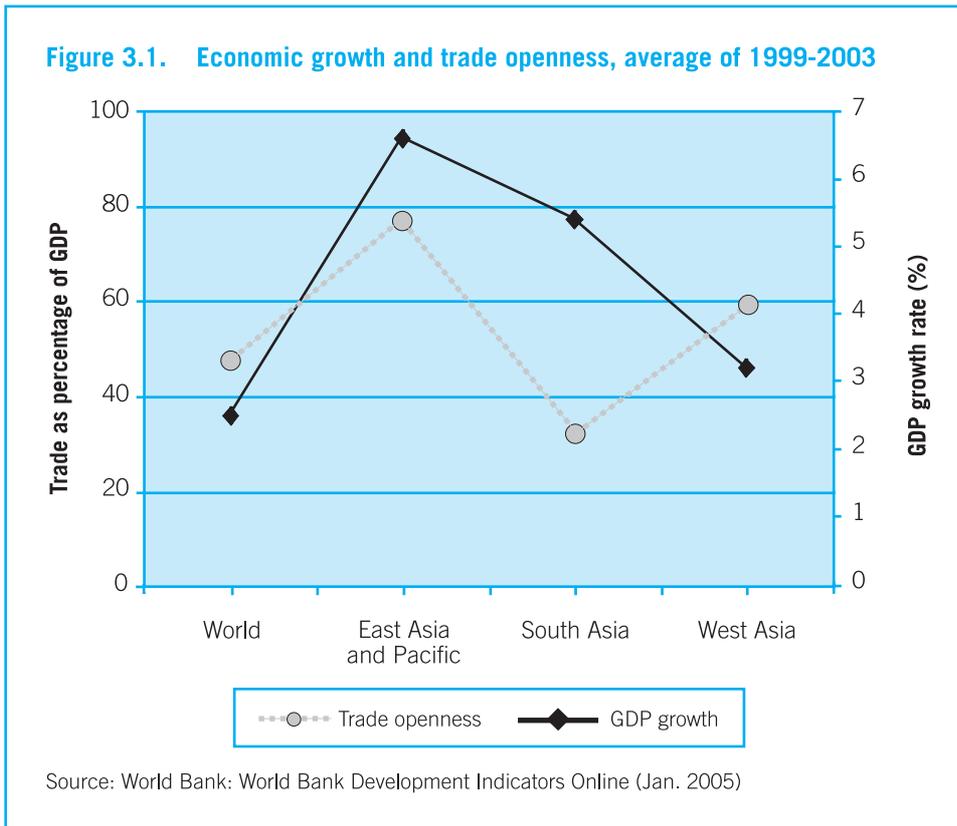
In terms of trade openness defined as the percentage ratio of total trade (exports plus imports) to GDP, East and South-East Asia are well ahead of other developing regions in the world (see figure 3.1). Whereas the 1993-2003 world average was 47.6 per cent, several East and South-East Asian countries exceeded 100 per cent. Singapore, Hong Kong (China) and Malaysia had trade-GDP ratios exceeding 200 per cent. In recent years, China has

³ Hong Kong (China), Indonesia, Japan, Republic of Korea, Malaysia, the Philippines, Singapore, Taiwan (China) and Thailand.

⁴ Financial Times: *Asia’s emerging giants, India and China: Prospects for growth cooperation and competition*, A special series of reports, analysis and interviews (Apr. 2005), p. 8.

⁵ *ibid.*, p. 5.

⁶ World Bank: *Trade investment and development in the Middle East and North Africa engaging with the world* (Washington, DC, Aug. 2003), p. 19.



demonstrated the most dramatic increase in trade opening, accounting for around one-fifth of the increase in world trade, driven not only by exports but also by imports – a growing proportion of which are from other Asian countries.

Nonetheless, the crucial question is whether trade openness has been translated into employment growth. Figure 3.1 indicates that trade growth has generally stimulated GDP growth, which in turn should have a favourable impact on employment; however, this relationship is far from simple.

The results of ILO studies are worth highlighting.⁷ In the first place, the developing countries that have been able to shift their export base from primary commodities to manufactures are those that have achieved significant export growth. For other developing countries, exports either stagnated or declined.

A critical insight that emerges from the contrasting experiences of the two groups of developing countries is that prior accumulated “manufacturing experience” has been of much importance in deriving benefits from trade liberalization. The countries that have now emerged as important exporters of manufactures had developed considerable manufacturing capacity under protectionist regimes prior to trade liberalization. The “marginalized countries”, on the other hand, had not developed such capacity and were unable to shift their export base away from primary commodities even when the global demand for these commodities stagnated and prices were falling.⁸

On the other hand, “since trade liberalization has generally been associated with stagnation or decline of exports in the case of ‘marginalized’ developing countries, it follows that trade liberalization has led to a deterioration,

Trade liberalization has not affected employment uniformly

⁷ An excellent summary is presented in ILO: *Trade, foreign investment and productive employment in developing countries*. Committee on Employment and Social Policy, Governing Body, 291st Session, Geneva, Nov. 2004, GB.291/ESP/2.

⁸ *ibid.*, para. 13, p. 4.

not improvement, in employment conditions in these countries. Stagnant or declining export revenues had adverse consequences for economic growth and hence for employment growth. Moreover, inadequate economic growth, together with declining international prices of primary commodities, exerted downward pressure on wages.”⁹

The result of these findings is that, while several Asian countries have benefited from trade liberalization, it should not be assumed that other Asian economies will automatically benefit from more open trading regimes. On the contrary, the historical experience of the “Asian miracle countries” would suggest that sequential reforms are of critical importance.

Ending of the Multifibre Agreement (MFA): Not all bad news

On 1 January 2005, a momentous event in global trade took place. According to the World Trade Organization’s (WTO) Agreement on Textiles and Clothing (ATC), the MFA, which had governed garment and textile imports to the EU and the United States through a system of quotas since 1974, came to an end. This final phase-out of the MFA has paved the way for seamless global trade, with winners and losers and significant economic and social consequences for Asian countries.

The winners and losers

The textile and clothing (T&C) trade is now free of quantitative restrictions and governed by prevailing WTO rules. Exporting countries face increasing competition, while clothing brands and retailers have greater freedom to consolidate their supply base, concentrating on those countries offering the best deals. Buyers and industry analysts predict the following:

- *Winners:* China and, to a lesser extent, India, which both have well-developed indigenous textile sectors. For the dynamic T&C exporters, the MFA had always hindered the expansion of their export volumes and shares in developed markets.
- *Losers:* Philippines, Mauritius, Nepal and other countries supplying the mass (cheap-end) garment market.
- *Uncertain outcomes:* Bangladesh, Pakistan, Indonesia, Cambodia and Viet Nam; they all have the potential to be competitive supply bases but also have serious difficulties (corruption and security problems) and high non-labour costs (electricity, transportation, storage, utilities and tariffs on material inputs). These countries will be winners or losers depending on how the industry and governments respond to the challenges.¹⁰

For West Asia, assessments suggest that the potential loss of market shares is likely to be confined to the Gulf Cooperation Council (GCC) countries which have been used as export platforms by third country exporters to circumvent quota barriers.¹¹ With no preferential agreements with either the United States or the EU, they are vulnerable to a loss in market share, particularly in the clothing sector, which tends to require low-cost labour.

⁹ *ibid.*, para. 22, p. 6/7.

¹⁰ Ethical Trading Initiative: *MFA Phase-Out: Who Gains? Who Loses?* ETI Forum Series, London (Oct. 2004), pp. 7-8.

¹¹ See, for example, M. Someya, H. Shunnar and T.G. Srinivasan: *Textile and clothing exports in MENA: Past performance, prospects and policy issues in post MFA context* (Washington, DC, World Bank, Aug. 2002), abstract.

Fear of a total rout of West Asian countries from the world T&C market does not appear justified because of the existence of differentiated niche markets (such as carpets and rugs from the Islamic Republic of Iran), quota-free and duty-free export opportunities (for Jordan and the occupied Arab territories under the Qualifying Industrial Zones Programme), and proximity to European markets. Therefore, West Asian countries could enjoy market shares in fast-moving, high-value items.

A major concern is that China will almost completely dominate the post-MFA scenario. Several surveys show that there has been a significant shift of production to China and a fall in unit price, and that China is currently the “supplier of choice” for major retail groups and brand name marketers in the United States. China has huge production capacity at low costs; its large industrial base means that many materials required to make clothing are locally available; it has also reduced lead time significantly.

Will China dominate the market?

However, it cannot be taken for granted that T&C exports from China will be steady, orderly and uninterrupted in the future. Labour costs are increasing in China. Power shortages and bottlenecks in the transport and distribution of oil and coal in China have disrupted production and delivery. Furthermore, China is on a development path towards increasing the relative importance of more skills- and capital-intensive industries and rising wages. While this will not prevent the Chinese T&C industry from increasing its share in the world market, it will restrict the expected rise in China’s market share in the medium to longer term. “The Chinese market is likely to absorb an increasing share of local production as Chinese consumers become more affluent.”¹²

China itself imposed export taxes on selected categories of T&C as of 1 January 2005 to achieve a gradual transition and help placate producer lobbies that feared the collapse of their industries. In addition, China’s transitional arrangements following WTO accession will continue until 2016. As part of China’s terms of accession, WTO members have the right to impose safeguard measures under certain conditions specifically against imports from China until 2008. At the time of writing, the United States, for example, was considering invoking the safeguard provision.

For many of Asia’s least developed countries, the MFA had been practically a preferential market-access channel into developed countries and a shelter from the rigours of global competition. Countries like Bangladesh and Cambodia had been able to build up a T&C industry under the MFA and show a very high degree of dependence. The T&C industry in Bangladesh was responsible for about 95 per cent of its industrial goods exports, 1.8 million jobs and probably another 2 million workers whose livelihoods depend indirectly on the sector.¹³ T&C exports accounted for 87 per cent of exports from Cambodia, around 50 per cent of total exports from Nepal and also Sri Lanka, 66 per cent from Pakistan, 48 per cent from Lao People’s Democratic Republic and 15 per cent from Viet Nam.¹⁴ Some of the non-oil-producing countries in West Asia have also come to rely on T&C to sustain manufacturing jobs and exports.¹⁵

Impact on smaller exporters and least developed countries could be severe

¹² H. K. Nordas: *Labour implications of the textiles and clothing quota phase-out*, Working paper No. 224 (Geneva, ILO Sectoral Activities Department, Jan. 2005), p. viii.

¹³ Ethical Trading Initiative, op. cit.

¹⁴ United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP): *Economic and social survey of Asia and the Pacific 2005: Dealing with shocks* (New York, 2005).

¹⁵ M. Someya, H. Shunnar and T. G. Srinivasan, op. cit.

Small and medium-sized enterprises and the informal economy will be most affected

The T&C industry in most countries entails a wide variety of producers, ranging from export-oriented enterprises equipped with advanced technology and foreign market links, to household-level producers in the informal economy with second-hand equipment catering mainly for local markets. Increased international competition will affect national industry, favouring the most efficient and crowding out the least productive. Restructuring industrial organization would have a mixed effect not just on those directly involved in the production of T&C, but also on those connected to the industry through complex backward and forward linkages, including local and national distribution systems.

In so far as inefficient operators who previously survived by exploiting poor workers are squeezed out, there would be an improvement in working conditions since larger companies are more likely to be aware of labour standards.

Young women are highly vulnerable to job losses and poor working conditions

Given the employment-intensive nature of the industry, job losses could be serious. Estimates of job losses vary widely, in part due to the lack of reliable statistics on workers in the industry. For example, estimated potential job losses in Bangladesh range from 800,000 to 1 million; in Sri Lanka from 100,000 to 300,000; and in Thailand from 100,000 to 200,000. It would appear certain that there will be disruptions in employment, and that job losses are most likely to occur in small and medium-sized enterprises (SMEs), “low-tech” and unmodernized factories and those offering basic “cut, make and trim” facilities.

Since young women who have migrated from rural areas form the bulk of the largely low-skill workforce in the T&C sector, the social costs of job losses and factory closures could be high. Alternative income-earning opportunities are scarce in these countries, where unemployment and underemployment are already high. Many labour rights activists fear that factories may “cut and run”, leaving workers not only without a job but also without wages owed and other benefits. For the remaining workers, the fear is that intensified competition may lead employers to, among others, reduce wages and default on proper compensation for overtime.

Remaining competitive post-MFA

When assessing the outlook following the phase-out of the MFA, there are several considerations. Countries are choosing different paths: improved competitiveness through proper observance of labour standards, as in Cambodia; or competitiveness based on low prices and low wages, as in Bangladesh. Cambodia’s efforts have already produced positive results and higher potential. The “Cambodian model” is certainly proving that labour standards can keep a country competitive (see box 3.1).¹⁶

In the case of Bangladesh, it has been pointed out that low labour costs will remain an important factor, but low manufacturing wages alone are not enough. Most of the cost of clothing lies not in the labour involved but in the logistics of transporting it to retailing outlets. If Bangladesh is to remain competitive, it will have to improve both the scale and skills of its factories and the efficiency of its infrastructure.¹⁷ Most importantly, Bangladesh can learn a tremendous amount from the Cambodian model.

¹⁶ Vol. I of the report for the 14th ARM *Decent Work in Asia: Reporting on results 2001-2004*, also describes the positive results of an ILO/US Department of Labor Project on improving working conditions in garment factories in Cambodia, including the fact that international buyers cite labour standards as a key factor.

¹⁷ K. Bradsher: “The silver lining for textile makers”, in *New York Times* (New York), 15 Dec. 2004.

Box 3.1**Labour standards help Cambodia keep customers**

Since the MFA ended, a majority of Cambodian factories have retained the loyalty of major retailers around the world by appealing not just to their need for low-cost production but also their desire to avoid the stigma of exploiting poor labourers in distant sweatshops. To keep its nascent apparel industries functioning in a world in unfettered competition, Cambodia, while still a very cheap place to produce apparel, has chosen to rely on outside inspectors and to foster unusually strong garment unions that have become an independent political force. These efforts may point the way for other nations seeking to avoid a race to the bottom as they struggle to establish or sustain footholds in the global economy.

Despite the loss of special access to the American market resulting from the end of quotas, the Cambodian Government, many garment factory owners and the unions are sticking to their higher standards. All agree that these factors have helped Cambodia escape much of the convulsion that is sweeping through the T&C industry. Given that the apparel industry provides nearly 90 per cent of the country's export earnings, the factory owners are starting to wield their considerable political influence to push the Government into tackling the corruption that has been driving up costs.

"We are extending our labour standards beyond the end of the quotas because we know that is why we continue to have buyers. If we didn't respect the unions and the labour standards, we would be killing the goose that lays the golden eggs" – Cambodian Minister of Commerce.

"The labour programme in the textile industry is more important to Cambodia than any other development programme because we know that wages go directly to Cambodian workers and raise their standard of living" – Cambodian Ambassador at large responsible for development issues.

"The labour unions for the textile workers are some of the best institutions this country has ever had" – United States Ambassador to Cambodia.

"The presence of the ILO was an important factor in our decision to remain in Cambodia" – Spokesperson for GAP.

Source: Elizabeth Becker: "Cambodia's garment makers hold off a vast Chinese challenge", *New York Times* (New York), 12 May 2005.

The post-MFA era presents opportunities for promoting decent work for T&C workers:

- First, affected workers need to be involved, through trade unions or other representative organizations, in designing the solutions. The multi-stakeholder task force recently set up in Sri Lanka (described in Volume I of the report for the 14th ARM) is one example of tripartite social dialogue to deal with the problem.
- Second, knowledge development and advocacy to emphasize the positive linkages between competitiveness and labour standards will be critical.
- Third, with brands and retailers consolidating their supply chains in response to the phase-out, there are opportunities for buyers to insist on proper labour standards and better monitor their observance as far down the supply chain as possible. Major retailers could also work with suppliers to improve labour standards.
- Fourth, bilateral trade agreements have helped some of the producer countries. An integrated T&C supply chain among countries in the region can also represent an attractive and competitive alternative in the post-MFA environment (see box 3.2).

*Opportunities
for promoting decent
work*

Box 3.2**Association of Southeast Asian Nations post-MFA**

Regional integration arrangements could help the Association of Southeast Asian Nations (ASEAN) member countries seize potential opportunities in the post-MFA era.

First, an integrated T&C supply chain among ASEAN member countries could overcome the rules of origin regulation imposed by developed countries. For example, for quota- and duty-free exports from the least developed countries, Canada's market access initiative requires a minimum of 25 per cent of import content, while the EU has a provision for regional cumulation. Individually, the least developed countries simply cannot meet these relatively tight rules but together they would be able to qualify.

Additionally, such a supply chain could tap a variety of external investment resources and expertise from the expected upsurge in the offshore relocation of T&C production facilities from developed countries. Another stimulus is that T&C is one of the 11 priority sectors selected for accelerated integration among ASEAN member countries.

Regional integration in T&C could also enable ASEAN countries to compete more effectively against India and China. For example, labour productivity in textiles and in clothing were both indexed at 107 in India in 2000, as compared to Indonesia (158 for textiles and 148 for clothing), Malaysia (209 and 151) and the Philippines (140 and 145). The pattern of specialization is also different, with India mostly focusing on textiles, while the South-East Asian countries specialize mostly in the labour-intensive production of garments. Of course, the ASEAN countries will need to make continuous improvements in human resources, infrastructure and policy environment, but they have the potential to match the competitive strength of India – although this may not be the case with China.

However, it does not make commercial sense for buyers to depend overly on China as a sole supplier. Thus, an integrated supply chain from ASEAN countries can serve as a supply source alternative to, or supplementing, China. Strengthening such a chain in South-East Asia could also empower the region's economies in competing more effectively with other suppliers' major markets worldwide.

Source: T. Wattanapruttipaisan: "Taking stock in a non-quota world", *Bangkok Post*, 10 Feb. 2005.

Intra-Asian investments growing rapidly

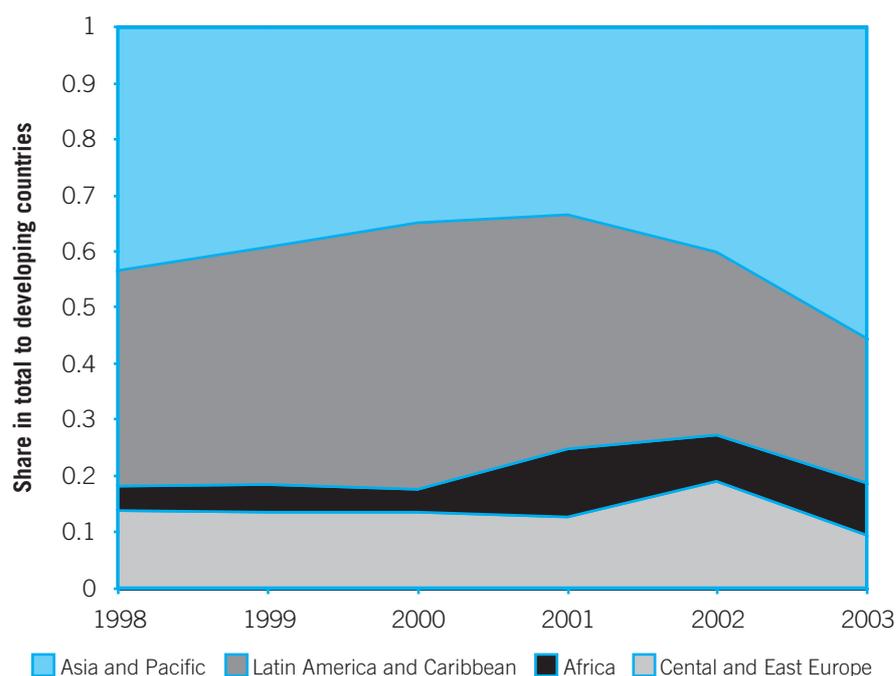
Developing Asia – The largest FDI recipient and the largest and fastest-growing outward investor in the developing world

Asia remains the largest recipient of FDI in the developing world (see figure 3.2), but the inflows have been very uneven. Countries with high economic growth attracted more FDI, while countries suffering from political tensions attracted less.¹⁸ Eight economies, namely, China, Hong Kong (China), Singapore, India, Republic of Korea, Malaysia, Brunei Darussalam and Thailand, accounted for 82.5 per cent of FDI inflows into Asia and the Pacific and for 51.5 per cent of total inflows into the developing world in 2003. FDI prospects are also expected to remain strong: almost three-fifths of the top MNEs surveyed by the United Nations Conference on Trade and Development (UNCTAD) expected FDI to increase over the next two years.¹⁹

China was the second largest FDI recipient in the world (after Luxembourg), reflecting both the relocation to, and expansion of operations in,

¹⁸ UNCTAD: *World investment report 2004: The shift towards services* (New York and Geneva, 2004), p. 49.

¹⁹ *ibid.*, overview, p. XIX.

Figure 3.2. Distribution by regions of net FDI inflows to developing countries

China by MNEs and also an increase in the number of mergers and acquisitions (M&As). FDI inflow to the Republic of Korea in 2003 was driven largely by M&As in finance and telecommunications. In South-East Asia, the flows have been going mainly to Singapore, Malaysia, Brunei Darussalam, Thailand and Viet Nam, while Indonesia has been experiencing a disinvestment. In South Asia, India's performance has been striking; its services sector, in particular ICT industries, has been the most dynamic for FDI inflows. The Pacific islands' share in FDI inflows into the region has been very small, less than 1 per cent. West Asia's share of FDI in 2003 was about 4 per cent of inflows into Asia and the Pacific and about 0.25 per cent of global inflows.

In 2003, developing Asia accounted for three-quarters of the total outward FDI stock of developing economies and for some four-fifths of total outflows. Among the main investors are Hong Kong (China), China, Republic of Korea, Malaysia, Singapore, Taiwan (China) and India. Much of the outward FDI from Asian countries is going to other countries within the region, so that South-South FDI flows have been growing.

The growth of Asian FDI providers can be traced to several factors, including the growing capabilities of Asian firms, their strong export orientation and their need to access technology, brand names and strategic assets abroad. For example, to deal with intensified domestic competition and the need to relocate mature industries to lower wage sites, efficiency-seeking Malaysian manufacturing enterprises are setting up in Indonesia and Viet Nam; China is investing in countries such as Indonesia, Myanmar and Yemen to access oil and other natural resources; and Indian information technology (IT) and related software companies are investing in developed countries, while Indian call centres and business process outsourcing (BPO) companies are setting up foreign affiliates in the Philippines and Mexico.

Intra-Asian investments have been growing rapidly, and Asian countries are more and more financially integrated with one another. The expansion of intraregional investments is due in part to the shift of production

Growing intraregional investments

from higher- to lower-cost locations. FDI within and between East and South-East Asian economies accounted for 49 per cent of flows in these regions in 2001-02. Developing country governments have been encouraging South-South FDI flows.²⁰ Regional integration arrangements also influence investment within these countries and accelerate the process of knitting the subregions into more widespread production networks.

Mixed employment and labour market effects of FDI

FDI inflows provide a measure of the presence and influence of MNEs in a country. Apart from increasing output and income, the potential benefits to Asian host countries lie in the fact that foreign investment brings in superior technology (although the extent of benefits depends on whether the technology spills over to domestic and other foreign-invested firms), increases competition in the host country, typically results in increased domestic investment, enhances export market access, and helps bridge a host country's foreign exchange gap.²¹ However, the empirical evidence on the employment impact of FDI is sparse and does not permit simple generalization.²²

Employment effects depend on the type of FDI

In the short term, the employment effects of FDI vary according to whether a particular project is a greenfield investment, a merger or an acquisition. In the special case of M&As, there may be a decline in employment as companies are restructured and rationalized. In China, where FDI went into joint ventures with overstuffed state-owned manufacturing enterprises, there is evidence of negative employment effects as the entry of FDI facilitated the necessary process of structural adjustment.²³ In the more open and less distorted Malaysian and Thai economies, the predominant location of MNEs in labour-intensive, export-oriented industries, combined with rapid economic growth, hastened the emergence of labour shortages and rising real wages. Employment impact also depends on whether there are strong "crowding out" effects on local firms, especially SMEs that are unable to compete, and on the introduction of capital-intensive technology by the MNEs. Another factor would be whether the FDI goes into manufacturing or services: evidence suggests that services FDI generally does not create as much employment per dollar invested as manufacturing FDI. Although employees in foreign service affiliates are, on average, better trained and better paid than those in manufacturing, the direct job-creating potential of these affiliates is lower than that in manufacturing.²⁴

What the available empirical evidence strongly suggests, on the other hand, is that the quantity and quality of employment generated through FDI are different from those of employment generated through domestic investment. Compared to domestic enterprises, in the same industry, TNC affiliates generally employ relatively more high-skilled labour and achieve higher labour productivity. They also pay higher wages for both high-skilled and low-skilled labour, though the wage premium tends to be higher for the high-skilled. The implication is that, in producing equivalent amounts of output, a TNC affiliate generates a lower number of jobs which are, however, of a higher quality than does a domestic firm.²⁵

²⁰ For example, China is promoting outward FDI by offering Chinese investors loans on preferential terms, tax rebates and investment insurance. The Government of Malaysia encourages South-South FDI flows through special deals signed with countries like India, the Philippines, Viet Nam and the United Republic of Tanzania. The Indian Government had signed 51 bilateral investment treaties and 41 double taxation treaties by the end of 2003.

²¹ Asian Development Bank (ADB): *Asian development outlook 2004, Part 3: Foreign direct investment in developing Asia* (Oxford University Press, New York, 2004), p. 219.

²² World Commission on the Social Dimension of Globalization: *A fair globalization: Creating opportunities for all* (Geneva, ILO, 2004), p. 38.

²³ ADB: *Asian development outlook 2004, Part 3: Foreign direct investment in developing Asia*, op. cit., p. 225.

²⁴ UNCTAD: *World investment report 2004: The shift towards services*, op. cit., p. 137.

²⁵ ILO: *Trade, foreign investment and productive employment in developing countries*, op. cit., para. 34, pp. 9-10.

Huge reserve accumulation by Asian countries: A matter of concern

Asia holds over US\$2,000 billion of foreign reserves, which have doubled over a period of three years. All the seven economies (Japan, China, Taiwan (China), Republic of Korea, Hong Kong (China), Singapore and India) that have over US\$100 billion of reserves are in the region.²⁶ West Asia is also an important net capital exporter. Nearly 850 billion constant United States dollars in current account surpluses over the past 30 years have not translated into investment within the region.²⁷

The huge reserve accumulation, although providing insurance against a future debt crisis, is a matter of considerable concern to policy-makers and capital market participants. Rather than financing productive domestic investment, a sizeable portion of this new accumulation is invested in United States treasuries, helping to finance a large part of the United States current account deficit.²⁸ The reserve accumulation is indicative of the growing stake of developing Asia in the global financial system. This, together with the build-up of excess domestic liquidity, makes risk assessment and risk management of the financial system an increasingly critical aspect of economic activity.

While capital is flowing out of the region in terms of rising reserves, net private capital (debt and equity) inflows have been increasing since 2000. Portfolio capital inflows have tended to generate a high degree of volatility and uncertainty in capital and currency markets. The Asia-Pacific region accounts for nearly 90 per cent of net portfolio equity flows to “emerging markets”. Private capital inflows into Asia have been driven partly by faltering confidence in the dollar because of the high persistent current account deficit of the United States. International investors have been shifting their assets to Asian economies. The inflows have been augmented by an increasing stream of “hot” money speculating on the imminent appreciation of regional currencies. The concern is also that private capital is going primarily not to countries in need of financing for infrastructure development, but to countries which, at present, do not need foreign capital to finance development. In these countries, the problem is not a lack of investment but an excess of it, leading to overheating of the economy.

A large proportion of the short-term private gross capital inflows into China has been attracted by expectations of a revaluation of the Chinese yuan, despite low Chinese interest rates. The Chinese central bank has been buying up these inflows and investing, at higher interest rates, in United States treasury bonds, thereby financing the United States budget deficit, but not real investment within China. Other Asian countries that have exchange rates pegged to the dollar (such as Malaysia) and/or have been the recipients of such capital inflows, such as India, have also been increasingly concerned that the effect of such inflows on exchange rates could destabilize their economies. Volatile exchange rates disturb a country’s efforts to apply prudent labour market and employment policies in efforts to balance efficiency and equity.

Accelerated reserve accumulation, rather than productive investment

Short-term private capital inflows linked to currency speculation

²⁶ UNESCAP: *Economic and social survey of Asia and the Pacific 2005: Dealing with shocks*, op. cit., p. 22.

²⁷ United Nations Economic and Social Commission for Western Asia (ESCWA): *Survey of economic and social developments in the ESCWA region 2004: Summary*, E/ESCWA/EAD/2004/3 (New York, 2004), p. 6.

²⁸ World Bank: *Global development finance 2005: Mobilizing finance and managing vulnerability* (Washington, DC, 2005).

“Inshoring” of information technology-enabled services (ITES) into Asia

The “tradability revolution”

Most services FDI has been domestic market-seeking in such traditional services as finance, tourism and retail trading, or in industries that have more recently opened up in the private sector, such as electricity, water or telecommunications. The continuous process of liberalization and deregulation of key service industries has led to growing inflows of FDI into industries that were previously dominated by the State or by domestic private sector firms. The “traditional” forms of service globalization could be provided in foreign markets only by setting up local operations through FDI, or by using non-equity arrangements such as licensing.

However, new ICTs have helped bring about a “tradability revolution” in services. The ICT revolution has opened up export-oriented FDI in tradable services. As more service functions become directly tradable, international production systems involving services are being established. The potential benefits for countries at all levels of development are enormous. Technology in the provision of many services is changing rapidly, and services are playing an increasing role in boosting competitiveness. Manufacturing activities themselves have a steadily growing component of services (in marketing, servicing, research and development (R&D), design and logistics), many of which are being increasingly outsourced to specialized suppliers. Efficiency-seeking services FDI has been growing, as has the range of tradable services.

Some of the global sourcing of ITES is carried out internally by moving services from a parent company to its foreign affiliates (sometimes referred to as “captive offshoring” involving FDI), while some is outsourced internationally to third-party service providers. Outsourcing ranges from single aspects of IT to offloading the entire corporate service functions to be performed and managed away from clients’ locations and to a different country. Box 3.3 provides an idea of the vast array of services now exported by developing countries.

Should Asian countries be concerned about global sourcing of ITES?

The global sourcing of ITES or BPO is still in its infancy; the amounts currently involved are still relatively small and the destinations limited to a few countries. Nonetheless, it is growing rapidly and could have a significant impact on employment and economic structures in many Asian countries.

ITES global sourcing may represent the next great wave of globalization

In the first place, the offshoring of service functions “may well mark the next stage in the evolution of the international division of labour. Indeed, economic geographers see it as the cutting edge of the ‘global shift’ in productive activity.”²⁹ There are sound, even compelling, reasons to expect the global sourcing of ITES to grow and spread.³⁰

Will countries in Asia benefit? If so, which ones? “The opportunities for all countries, not least developing and transition economies, to attract employ-

²⁹ UNCTAD: *World investment report 2004*, op. cit., p. 147.

³⁰ In the words of an executive at an Indian offshoring facility, anything that can go down the wire is up for grabs. As another article put it, tasks that can be performed elsewhere are limited only by a manager’s imagination.

Box 3.3**Services offshoring**

The following are some examples of services that are now exported across borders:

Audiovisual and cultural services: motion picture and video tape production and distribution, motion picture projection, radio and television, sound recording, recreational, cultural and sporting services and news agency services.

Business services: various back-office processes such as billing, purchasing or claims processing and front-office services such as customer interaction and technical support. Business services also include electronic publishing, legal transcription, litigation support, mailing list management, remote secretarial services, technical writing, telemarketing, telesupport and web-site design.

Computer and related services: installation of computer hardware, software implementation, data processing, database services, and maintenance and repair of office machinery and equipment.

Higher education and training services: cross-border delivery of education and training content in audio and visual formats or on the Internet.

Financial services: insurance and insurance-related services, as well as banking and other financial services.

Health services: medical, dental, nursing and paramedical services, as well as hospital, social and other human health services – these are among the most rapidly growing industries in the world economy. Direct exports of related services include shipment of laboratory samples, diagnosis, second opinions and consultations via traditional postal channels as well as via electronic means – including on-line diagnostic services and interpretation of radiology scans.

Internet-related services: including the supply of the Internet itself (telecommunication services), the supply of content, a mix of business services, audiovisual services and computer and related services.

Professional services: such as legal, accounting, auditing, taxation, architectural and engineering services.

Animation production: in response to the fast growing demand from animation studios to meet 2-D and 3-D requirements.

Source: UNCTAD: *World investment report 2004*, op. cit., p. 150.

ment and income-creating work are significant, although at this stage, it is impossible to say exactly how significant. The forces driving offshoring are powerful and the resulting economic benefits are a classic illustration of gains from trade and specialization. Competitive pressures on companies are likely to spur further offshoring as managers are obliged to look for new ways to improve competitiveness ... However, realizing the full development and competitive potential of offshoring will not be easy.”³¹

To date, most offshored services have been concentrated in a relatively small number of countries; Ireland, India, Canada and Israel (in that order) accounted for over 71 per cent of the overall market in 2001. But many other destinations – including several in Asia – are emerging as host countries. India is at the top of the list of attractive destinations in the world (see box 3.4). The Philippines is also an attractive host country, partly because of its cultural

Several Asian countries are already important host countries

³¹ UNCTAD: *World investment report 2004*, op. cit., pp. 155-156.

Box 3.4**The rise of India as an ITES exporter**

Global sourcing of software development and other ITES has driven India's recent spectacular performance in the global economy. Over the past decade, the value of Indian exports of software and other services jumped from less than US\$0.5 billion to US\$12 billion in 2003-04, and the share of these services in total exports increased from 3 to 21 per cent between 1996 and 2003. The export of ITES rose from US\$0.6 billion in 1999-2000 to US\$3.6 billion in 2004. The United States and the United Kingdom account for 82 per cent of exports, but India is seeking to diversify by harnessing its growing trade relations with China and ASEAN member countries.

Foreign companies are using India to offshore customer care, finance, human resources, billing and payment services, administration and content development and, increasingly, higher value-added activities such as engineering and design, knowledge processing and logistics. It has been estimated that this service industry generates around 240,000 jobs, with the customer care segment accounting for 39 per cent of employment and recording the highest growth rate in recent years. Although foreign investors have created new software jobs in India, local Indian companies lead the field in the software industry and have acquired a strong reputation in terms of high-quality services. Employment in foreign affiliates has expanded faster than in local firms during the past five years. In software development, foreign firms now account for around 20 per cent of total employment; in ITES the share is around 28 per cent. There is no real difference in the employment intensity of foreign and local firms; nonetheless, highly skilled and design-intensive activities generate fewer jobs than less skill-intensive activities such as data entry. In software development, the average number of people employed, per US\$1 million of exports, is in the order of 30 persons. The figure is around 68 persons for the ITES industry as a whole, 88 for content development and 79 for customer care. Thus, employment generation in software is only about half that in ITES.

The key to the "success" of India has been attributed to a series of strategic policy choices that build the country's export capacity. As far back as the 1970s, the Indian Government recognized the potential of the software sector and offered the first degree courses in computer sciences. Tertiary-level training capacities were further extended under the Computer Manpower Development Programme launched in 1983. Private institutions also established a range of courses. The rapid growth in the number of graduates with degrees in computer sciences and related engineering and technology disciplines was crucial for software success. Public policy was not limited to investment and promotion of education. The Department of Electronics played an active role in establishing networking infrastructure and setting up software technology parks with high-speed communication links in cities such as Mumbai and Bangalore. This was supplemented by promotional measures such as tax and import duty exemptions and an early relaxation of foreign ownership rules. The Indian success has been described as "a typical case of proactive State intervention wherein the Government laid the foundation and the industry took off with greater participation by the private sector". Another factor that helped the export-led growth in ITES was the emigration of Indian IT specialists who provided links between the emerging Indian software industry and the established companies abroad.

Source: Based on UNCTAD: *World investment report 2004*, op. cit.; and N. Kumar and K.J. Joseph: *National innovation systems and India's IT capability: Are there any lessons for ASEAN newcomers?* RIS Discussion Paper No. 72/2004 (New Delhi, Research and Information System for the Non-Aligned and other Developing Countries, 2004).

affinity with the United States and American English speakers. Employment in its call centre industry was expected to increase from 27,000 in 2003 to double that amount in 2004. There has also been rapid growth in shared service centres owing to a highly skilled workforce in accounting, software writing, architectural services, telemarketing and graphic design. In Malaysia, third-party call and contact centres have grown in number by up to 200 per cent since 2000, taking advantage of the multilingual labour force. Singapore targets leading-edge offshore functions, such as remote robotics management, healthcare and genetic diagnostics, and has become one of the key hubs for regional headquarters. China is also quickly emerging as a major destination for offshored services, including electronics product development, call centres and financial services.

Offshoring has provoked strong reactions from developed countries, in particular the United States, with regard to white-collar job losses. In 2003, a *Business Week* cover posed the stark question to United States white-collar workers: “Is your job next?” The “jobless recovery” in the United States, which some observers link to offshoring, has further intensified the debate. Trade unions in the United States have also expressed strong concern. The issue of offshoring was hotly debated in the run-up to the recent United States presidential elections. In January 2004, the President of the United States signed a bill prohibiting private companies that win government contracts in the federal transport and treasury departments from moving the work offshore. At the state level, more than 100 bills have been introduced in at least 36 states to restrict services offshoring. The actual employment effects are discussed in box 3.5, but the significance of such legislation lies in its possible symbolic impact on liberalization by setting a precedent. A political backlash that leads to protectionism would be harmful to both developed and developing economies alike. Instead, better labour market policies on both sides are needed.

Whether – and which – Asian countries are able to increase the employment opportunities presented by this new wave of globalization will depend on a number of factors. Countries able to offer lower costs obviously have a major advantage. When labour costs account for some 50-70 per cent of total costs, as is the case for call centres, it is clearly attractive for American companies to move to India, where wages are 80-90 per cent lower. However, cost reduction is only one factor; availability of workers with the appropriate skills, which tend to be increasingly specialized and high-level, is also a key factor. Proficiency in IT is important but not sufficient – software development requires engineering skills, back-office work may require accounting skills, while call centres require skills in customer interaction and marketing. Language skills and linguistic traditions play a key role in the location of call centres.

In addition, the quality of infrastructure, notably cost-effective, reliable and stable telecommunications (including fibre-optic links) and power supply, is critical. Export processing zones (EPZs), which traditionally have been used to attract FDI in the export-oriented production of manufactured goods, are increasingly promoting a range of service activities. Service activities are also being promoted in other types of special economic zones, technology and science parks, and “high-tech” industrial development zones. Of course, policy-related factors also affect the location decisions of different offshored services – these include active promotion by a host country government such as through preferential regulations, grants and incentives. Success in attracting offshore services may also have a cumulative dynamic of its own – in the case of India, for example, success in one set of activities has led to success in others, so much so that there is also a “reputation effect”. Its reputation for offering efficient and reliable support for offshored services has attracted others.

Global sourcing blamed for job losses in developed countries

Factors affecting the “inshoring” of ITES into Asia

Box 3.5**Is global sourcing responsible for job losses in the United States?**

Critics of global sourcing argue that, by adopting such a practice, companies are exporting American jobs overseas and profiting at the expense of those Americans who lose their jobs. They contend that global sourcing is a growing cause of high unemployment in the United States and is undermining American wages and benefits; and that the sharp decline in manufacturing employment between 2000 and 2003 is due largely to outsourcing to low-wage countries like China. They cite the trend among a growing number of companies to shift corporate service functions to places like India, and forecast that some 3.3 million jobs in the United States will be offshored by 2015, and that American workers who lose their jobs will find it hard to regain an equivalent standard of living.

Fears about job losses tend to overplay the likely impact of offshoring. In part, differences arise because some studies refer to gross, others to net, effects on jobs. Although every job lost because of outsourcing is a job lost, new jobs may also be created as a result, especially in the high-end service sector. A study found that for every dollar spent on offshoring in India, firms in the United States reaped US\$1.12-1.14 in benefits (in terms of lower prices to consumers, expanding markets for exports and higher corporate profits).

Provided resources are mobile and workers move to new jobs, such changes are not just beneficial but also necessary for long-term prosperity. The impact of global sourcing is no different from that of technical changes that make some jobs redundant and create others, generally at higher wage levels. Neither is it any different from the constant shifts in patterns of comparative advantage in manufactures which have driven trade growth in the past (the difference is that in the case of manufacturing, it was blue-collar workers who were affected, whereas now it is white-collar workers).

The “jobless recovery” in the United States had very little to do with global sourcing and almost everything to do with technological innovation. Data from the United States Department of Labor show that only 2.5 per cent of all job losses during the first quarter of 2004 was the result of offshoring. Technical change is a far more important cause of job losses. Bank tellers, answering services and secretaries are replaced by automated teller machines, voice-answering technologies and word-processing software. Productivity gains have outstripped demand so fewer workers are needed.

The debate also needs to take into account the United States trade surplus in services; the issue is that United States exports of services are of high-skill intensity while imports are of low-skill intensity.

Source: UNCTAD: *World investment report 2004*, op. cit.; and D.W. Drezner: “The outsourcing bogeyman”, *Foreign Affairs* (New York), May/June 2004, Vol. 83, issue 3.

ICT uniting and dividing Asia**A widening “digital divide”**

ICT is the key enabler of globalization, promoting the efficient and cost-effective flow of information, products, people and capital across national and regional boundaries. At present, ICT is the fastest growing industry in the world and is poised to become the largest. ICT has changed comparative advantage among countries and groups – notably by making knowledge a key factor of production and raising the stakes on investments in education, training and the diffusion of knowledge; and, as described above, by bringing about the tradability revolution in services and generating substantial IT-related employment.

The non-economic effects of ICT are equally significant, if not more so. With the spread of the Internet, email, low-cost international phone services, mobile phones, electronic conferencing, satellite television and electronic press, governments, civil society and individuals across the globe have become more interconnected. ICT can accelerate both economic and social development – many governments are now using ICT to promote good governance through strengthening intra-government information flows; improving the quality, transparency and efficiency of public health, education and social services; encouraging citizens' participation in decision-making processes; and informing citizens about government operations and services.

The problem, however, is that although all countries, even the poorest, are increasing their access to ICT, the rate of increase is much faster among the developed, rather than the developing, countries – the “digital divide” has been widening. In 2002, the number of Internet users per 1,000 people was 551.9 in the Republic of Korea, 504.4 in Singapore, 481.7 in Australia, 448.9 in Japan, 319.7 in Malaysia, 313.2 in United Arab Emirates, 105.8 in Kuwait, 77.6 in Thailand, 64.6 in Saudi Arabia, 61.0 in Fiji, 46.0 in China, 44.0 in the Philippines, 37.7 in Indonesia, 20.6 in Mongolia, 18.5 in Viet Nam, 15.9 in India, 12.9 in the Syrian Arab Republic, 10.6 in Sri Lanka, 2.7 in Lao People's Democratic Republic, 2.2 in Cambodia and 1.5 in Bangladesh.³²

It is not just a question of access. For example, in West Asia, there has been very little creation of services, products, applications and employment gravitating around ICT, and e-commerce and e-government are very much in their infancy.³³ Concerns over the seriousness of the digital divide led Heads of State and Government at the Millennium Summit to resolve “to ensure that the benefits of new technologies” become “available to all”.

Regional integration and cooperation in Asia

Even in a globalizing world, employment promotion remains primarily a national responsibility. “This being the context, the international community needs to ensure that national governments in developing countries have the possibility of using trade and FDI as instruments of employment promotion just as national governments in developed countries have to acquire the ability to use these instruments in an effective manner.”³⁴ The ILO has been assisting Asian countries to do so, but national policy agendas are increasingly circumscribed by external events and forces and by the growing interdependence and interconnectivity among people, economies and countries.

The “stepping-stone” between national policies and multilateralism

Benefits of regional integration and cooperation

Regional integration and cooperation arrangements can be a “stepping stone” between national policies and multilateralism in a completely open global economy; it “brings many of the same benefits as multilateralism but on a smaller scale”.³⁵ In a context in which multilateral processes to promote greater openness in the world economy have been slow to make progress,

³² United Nations Development Programme (UNDP): *Human development report 2004: Cultural liberty in today's diverse world* (New York, 2004), pp. 180-183.

³³ G. Accascina: *Information and communication technology for development in the Arab States: Overview, considerations and parallels with Asia* (UNDP).

³⁴ ILO: *Trade, foreign investment and productive employment in developing countries*, op. cit., p. 11.

³⁵ UNESCAP: *Meeting the challenges in an era of globalization by strengthening regional development cooperation* (New York, 2004), p. 24.

regional cooperation can be effective in assisting countries to deal with globalization challenges and reap the benefits of emerging complementarities.

The report of the World Commission on the Social Dimension of Globalization³⁶ cites a number of reasons for promoting regional integration and cooperation, including:

- Regional integration and cooperation can empower people and countries to better manage global economic forces by effectively increasing the size of domestic markets, enhancing the capacity to withstand external economic fluctuations, and dampening the spillover effects of external shocks between neighbouring countries.
- Integration can enhance the negotiating power of smaller countries, acting together, which otherwise would have little voice at international level.
- Regional integration and cooperation can help build the capabilities needed to take advantage of global opportunities. Investment in skills, infrastructure, research (including the development of regional data/information bases), technology and support for innovation will often require an amount of effort more readily achieved at regional level. In larger markets, it is easier to take advantage of economies of scale.
- Common frameworks for financial regulation, rights at work, tax coordination and investment incentives are practical regional goals which can help prevent any risk of a “race to the bottom” in these areas.
- Regional integration and cooperation can improve the conditions under which people connect to the global economy. Regional concerns include, for example, the cross-border movements of people, the prevention and treatment of communicable diseases, including HIV/AIDS, the prevention of trafficking and early-warning systems for disasters.

Regionalization in Asia

Regionalization in Asia started with cooperation in subregional groups. ASEAN was formed in the late 1960s, but actual economic and trade cooperation started only in 1977 with the ASEAN preferential trading arrangements. South Asian countries came together in the South Asian Association for Regional Cooperation (SAARC) in the early 1970s. The Pacific Islands Forum was also set up in the early 1970s, but members often continued to choose national approaches over regional solutions. In 2003, however, the Pacific Islands Forum leaders decided to review and reinvigorate regional cooperation. The Pacific Plan is being prepared for adoption in October 2005, to strengthen links for economic growth, sustainable development, good governance and security. The League of Arab States had the earliest beginnings, just after the Second World War. Members of the GCC came together in the early 1980s.

These subregional groupings in Asia have tended to concentrate on trade and economic cooperation. Most commonly, regional integration arrangements cover free-trade areas,³⁷ preferential trade arrangements (PTAs)³⁸ or customs unions. Traditionally, Asia had been the least “region-

³⁶ World Commission on the Social Dimension of Globalization: *A fair globalization: Creating opportunities for all* (Geneva, ILO, 2004), pp. 71-74. See also UNESCAP: *Meeting the challenges in an era of globalization by strengthening regional development cooperation* (New York, 2004), pp. 24-26.

³⁷ Defined in article XXIV para. 8(6) of GATT as consisting of “a group of two or more custom territories in which the duties and other restrictive regulations of commerce ... are eliminated on substantially all the trade ...”.

³⁸ Defined in the GATT Enabling Clause, para. 2(c), PTAs are those arrangements “entered into amongst less-developed contracting parties for the mutual reduction or elimination of tariffs ... on products imported from one another”.

alized” area in terms of regional trade agreements (RTAs) notified to WTO. Nonetheless, over the past few years, Asia has become perhaps the busiest region, with some 48 RTAs notified to WTO, and many more pending.

Cooperation has also been promoted by cross-subregional groups such as the Asian Pacific Economic Cooperation (APEC), the Bangkok Agreement countries, the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC) and the Shanghai Cooperation Organization. Some of these integration efforts are highlighted in box 3.6.

Bilateral trade agreements (BTAs) are becoming increasingly popular in Asia. BTAs are going beyond the reduction of tariffs and other trade barriers to encompass a deeper integration of trade through the harmonization of a wide range of trade practices, procedures and standards. Singapore and Thailand have emerged as the two Asian countries with the highest number of completed BTAs, with Japan, China and India not being far behind. The Republic of Korea, which remained out of the race until 2004, has since been making a very concerted effort, and aims to conclude bilateral free trade agreements (FTAs) with at least 15 nations by 2007.³⁹ Malaysia is also trying not to be left behind by negotiating trade deals with its key economic partners. The Australia and New Zealand Closer Economic Relations Trade Agreement is a key element in the economic relations between these two neighbouring countries.

Proliferation of bilateral and cross-regional trade agreements

At the same time, there has been an increase in the number of outward-oriented FTAs that bridge subregions and continents. This integration is centred in East and South-East Asia. ASEAN + 3 (Japan, Republic of Korea and China) is increasingly the focus of attention, but cooperation between ASEAN and India is also growing. In West Asia, the six-nation GCC is working on a fast-track FTA with the 25-member EU.

The current criss-crossing of BTAs is leading to confusion and concerns. An important question is whether these bilateral initiatives promise greater economic benefits than a region-wide or WTO approach to liberalization. The concern is that bilateral agreements between individual countries might tend to splinter, rather than strengthen, regional integration and cooperation. Initiatives that bridge the subregions of Asia have a greater potential to foster a truly Asian identity and to ensure that Asia is able to effectively function as a zone for efficient production with enhanced opportunities for world trade.

Some of the BTAs have gone beyond merchandise trade to cover international mobility in services and labour. For example, the ASEAN Framework Agreement on Services (1995) seeks to increase trade in services among member countries. The Framework Agreement on the ASEAN Investment Area (1998) covers the intraregional movement of skilled labour. ASEAN also has an ongoing project to promote the mobility of the highly skilled in the subregion through an agreement on mutual recognition of qualifications in selected professions and occupations. The economic partnership agreements that Japan has signed with Singapore and the Philippines include skilled labour mobility, specifically the movement of nurses and certified caregivers. While specific provisions for labour mobility have not yet been agreed upon under APEC and SAARC, initiatives have to be made to facilitate the intraregional movement of people travelling for business purposes. Temporary movement of unskilled labour, however, has so far received only limited attention under such frameworks.

³⁹ As reported in the *Korea Herald*, *Asia News Network*, Seoul, 1 Apr. 2005.

Box 3.6

Selected regional bodies and their associated trade agreements

Body/forum	Year established	Aims and missions ¹	Major trade agreements/declarations
Asia and the Pacific			
Association of Southeast Asian Nations (ASEAN) ²	1967	Accelerate economic growth, social progress and cultural development in the region, and promote regional peace and stability	ASEAN Free Trade Area (AFTA, 1992)
Pacific Islands Forum ³	1971	Enhance the economic and social well-being of the people of the South Pacific	Pacific Islands Countries ⁴ Trade Agreement (PICTA, 2001) Pacific Agreement on Closer Economic Relations ⁵ (PACER, 2001)
South Asian Association for Regional Cooperation (SAARC) ⁶	1985	Promote the welfare of the peoples of South Asia and improve their quality of life through accelerated economic growth, social progress and cultural development in the region	SAARC Preferential Trading Arrangement (SAPTA, 1993) South Asian Free Trade Area (SAFTA, 2004)
Asian Pacific Economic Cooperation (APEC) ⁷	1989	Enhance economic growth and prosperity for the region and strengthen the Asia-Pacific community	Bogor Declaration (1994)
Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) ⁸	1997	Create economic and social prosperity based on equality, and enhance mutual benefits in economic, social and technological aspects	BIMSTEC Free Trade Area Framework Agreement (negotiation in process)
West Asia			
League of Arab States ⁹	1945	Strengthen ties among the member States, coordinate their policies and promote their common interests	Pan-Arab Free Trade Area (PAFTA, 1997)
Gulf Cooperation Council (GCC) ¹⁰	1981	Effect coordination, integration and inter-connection between Member States in fields such as the economy, finance, trade, customs, tourism, legislation and administration	Unified Economic Agreement (1981) GCC Customs Union (2003)

¹ From each body's respective web site. ² Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam. ³ Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. ⁴ Excluding Australia and New Zealand. ⁵ Including Australia and New Zealand. ⁶ Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. ⁷ Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong (China), Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russian Federation, Singapore, Taiwan (China), Thailand, United States and Viet Nam. ⁸ Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand. ⁹ Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libyan Arab Jamahiriya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates and Yemen. ¹⁰ Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates and Yemen.

4. Four key areas for decent work in Asia

All four dimensions – employment, rights, protection and dialogue – are critical for achieving decent work in Asia. Volume I of this report¹ highlights the importance of a comprehensive, integrated and gender-sensitive approach to decent work. But in order to help focus discussion in four parallel sessions at the 14th Asian Regional Meeting (ARM), this chapter selects four aspects that are crucial to achieving decent work in Asia and highlights the policy considerations at national and regional levels. The subject of governance is presented as a key aspect which is also closely linked to the other aspects of decent work.

(i) Competitiveness, productivity and jobs in a globalizing context

Competitiveness of Asian countries

The World Economic Forum's *Global Competitiveness Report 2004-2005* ranked Singapore sixth, Japan ninth, Australia 14th and the United Arab Emirates 16th in its growth competitiveness index. The index is composed of three pillars considered critical to economic growth: the quality of the macroeconomic environment; the state of a country's public institutions; and its technological readiness. Other Asian countries among the leading 50 in the world include New Zealand (18th), Hong Kong, China (21st), Republic of Korea (29th), Malaysia (31st), Thailand (34th), Jordan (35th) and China (46th). Compared to 2003, Japan (up from 11th place) and Indonesia (from 72nd to 69th place) made small improvements, whereas the Republic of Korea (from 18th to 29th place) and Viet Nam (from 60th to 77th place) experienced significant drops in ranking. The fall experienced by the Republic of Korea was linked especially to the macroeconomic environment, whereas Viet Nam's competitiveness dropped particularly with regard to

Competitiveness hinges on good governance

¹ ILO: *Decent work in Asia: Reporting on results 2001-2004*, Report of the Director-General, Vol. I, 14th Asian Regional Meeting, Busan, Oct. 2005.

public institutions and technology. Other countries that experienced sharp drops in growth competitiveness included the Philippines and Pakistan.

A complementary measure, the business competitiveness index, evaluates the underlying microeconomic conditions defining the current sustainable level of productivity in a given country. This index is based on the sophistication of the operating practices and strategies of companies and the quality of the microeconomic business environment in which companies compete. Between 2003 and 2005, Japan registered the highest absolute improvement in its index, mainly as a result of greater financial market sophistication and improved quality of administrative services. Indonesia jumped from 18th to 44th place, while India rose from eighth to 30th place.

Competitive advantage based on abundant and cheap labour is transitory

Abundant and low-cost labour is one production factor that gives many Asian developing countries a comparative advantage. Focusing on that abundant factor – labour – can be an employment-rich as well as a productivity-enhancing strategy. However, policy-makers should recognize the limits and transitory nature of such a strategy. First, low-cost labour may have only a limited bearing on the comparative advantage needed to attract foreign capital. Abundant cheap labour is not the only factor that attracts large foreign direct investment (FDI) inflows to a country. There are other more influential factors: the openness of trade and investment policies; the quality of the labour force; and the potential of the domestic market.² Second, the example of the Asian “miracle economies” shows that comparative advantage based on the intensive use of cheap and relatively unskilled labour is transitory. Their competitiveness has been eroded as countries such as Bangladesh, India, China and Viet Nam have learned to manufacture products more cheaply. They have therefore put greater emphasis on modern technology, human resources development and higher value-added production, and moved up the value chain. This strategy has helped not only to maintain their competitiveness but also to capture a larger share of the benefits of globalization.

Labour productivity crucial to competitiveness and poverty reduction

The essence of competitiveness lies in increasing labour productivity. Productivity hinges on the skills of the workforce, the quality of work organization and sound labour relations

The essence of competitiveness lies in increasing labour productivity because this is the key to ensuring survival and long-term growth at enterprise and national levels. The primary source of productivity growth is technological change, which in turn requires a well-educated and skilled workforce. Moreover, given the need for constant upgrading within the context of rapid technological or organization change, workers should be able to constantly improve their skills to match workplace needs. In this kind of environment, trainability or individual absorptive capacity may well be more important than a worker’s initial entry qualifications or professional skills.³

Many Asian nations face the double challenge of investing more in human resources and reforming the content and forms of education. Countries with large youth populations, such as those in West and South Asia, should ensure that initial education prepares workers for both present and future needs, whilst countries with an ageing population need to emphasize lifelong learning to maintain the employability of a “greying” workforce.

² I. Ismail: “Human resource competitiveness and inflow of foreign direct investment to the ASEAN region”, in *Asia-Pacific Development Journal*, Vol. 9, No. 1, June 2002, pp. 89-107

³ ADB: *Asian Development Outlook 2003* (Manila, 2003).

Growth in productivity is the ultimate source of growth in living standards because part of the productivity gains can be distributed to workers in the form of higher wages or shorter working time, or both. As earlier emphasized in the report, the growth of productivity is particularly vital for the poor because “it is not the absence of economic activity that is the source of their poverty, but the less productive nature of that activity”.⁴ However, it should be noted also that increasing productivity has the potential to reduce poverty only “when the gains are equitably distributed through appropriate wage and tax policies. With such policies in place, productivity gains are also the route to non-inflationary growth”.⁵

Productivity – The key to working out of poverty

The benefits achieved from productivity gains thus far in Asia are uneven. Over recent decades, labour’s share in national income has been declining in many countries. “Having wages grow, but grow with a lag, or grow at less than the rate of productivity growth, has in fact been a hallmark of the export-oriented East Asian miracle economies.”⁶ Rapid economic growth and productivity gains have led to rising real wages in some countries, while working hours remain long, in some cases extremely long. Since 1990, real manufacturing wages have more than doubled in China, reflecting the exceptionally rapid output and productivity growth in that sector. There have also been significant real wage gains in some other rapidly growing countries of East and South-East Asia. But real manufacturing wages have been flat in South Asia and in some of the Pacific islands.

At the same time, long working hours – much longer than in other regions – are still the norm in Asia. Employees’ average working time is more than 46 hours per week in India, Viet Nam, Singapore and the Republic of Korea, and a significant section of the labour force, especially women, works excessive hours (more than 50 hours per week). Poverty rates have declined, although many countries are likely to miss the Millennium Development Goals (MDGs).

Promoting both employment growth and productivity growth

Jobs can be lost as a result of improvements in productivity, as has been the case in the manufacturing sector in China, the Republic of Korea and Japan. In the longer term, however, there is no necessary trade-off between productivity growth and employment at national level. Job losses at one location may be balanced by job creation in another area, and job losses in one sector may be compensated by job gains in another. Productivity increases in one sector may shift the composition of consumer demand economy-wide. One consequence is aggregate employment growth, although not necessarily in the sector in which the productivity gain occurred.

No necessary trade-off between productivity growth and job creation

A strategy focusing on employment creation does not have to mean a sacrifice in productivity. A strategy increasing productivity and employment over the longer term should entail a dual strategy of “investing in the dynamically growing sectors of the economy, while building capacity in sectors where the majority of labour is employed.”⁷

Dynamic sectors would include the services sector which, as shown in the previous chapter, is the fastest growing in Asian countries. However,

⁴ ILO: *World Employment Report 2004-05: Employment, productivity and poverty reduction* (Geneva, 2005).

⁵ ILO: Governing Body doc. GB.286/ESP/1(Rev.), para. 9.

⁶ ILO: *World Employment Report 2004-05*, op. cit., p. 98.

⁷ *ibid.*, p. 13.

employment in the services sector is found at both ends of the decent work spectrum. Increasing service sector employment can either indicate a successful transition of the economy towards higher productivity levels, or reflect high numbers of hidden unemployed people in low-productivity services such as petty trade and personal services.⁸ What is needed is to tap into the markets for information technology-enabled services (ITES), in particular by enhancing the factors identified in the previous chapter (see box 3.4 on India's success). These include investment in education and training to enhance ICT proficiency and related skills, providing quality infrastructure and promotional policies to attract FDI in such services. Very importantly, any strategy for effective ICT implementation must involve accommodating institutional, industrial and work organization structures and sound industrial relations in order to have a positive impact on competitiveness, growth and decent employment.

There should be forward and backward linkages in the supply chain between fast-growing sectors and those in which labour is dominant. The growing ICT sector in India is a case in point. Currently, India's ICT sector employs about 800,000 people, a figure that is expected to increase to 2 million by 2008. This is still only 0.5 per cent of the 400 million-strong labour force.⁹ The challenge, then, is to broaden the ICT sector, while deepening the linkages with other sectors in the economy – sectors where the majority of labour is employed.

The importance of not ignoring the sectors where most people are employed and giving attention to working conditions and OSH concerns

A strategy of investing only in dynamic sectors in an attempt to “leap-frog” may not be enough to reduce poverty, mainly because the fastest growing sectors may often not be where the majority of people are employed. The importance of not neglecting domestic sectors is underscored by the uncertain employment impact of FDI, as discussed in Chapter 3. Developing countries should not make the mistake of seeking to attract FDI to the extent of neglecting domestic sectors (not to mention sacrificing proper working conditions and protection of women workers).

Focusing on sectors where most workers are employed is one way of balancing employment and productivity in both the interim and long term. For Asian developing countries, this means investing in strategic growth sectors by acquiring and internationalizing the knowledge developed elsewhere if they are to catch up, while at the same time improving worker productivity in traditionally low-productivity sectors such as agriculture and the urban informal economy. It also unquestionably means improving working conditions and occupational safety and health (OSH) and promoting the ILO code of practice on HIV/AIDS and the world of work, since poor safety and health standards represent a serious threat to productivity in many workplaces.

Improving agricultural productivity and enabling the rural poor to work themselves out of poverty

In South Asia and parts of South-East Asia, agriculture remains the main source of income for a very large section of the population, and poverty is predominantly a rural phenomenon. Improving productivity in agriculture is therefore not only important for the development of the economy as a whole but also for poverty reduction. It provides employment opportunities and a chance for the poor to work their way out of poverty. India's efforts to unleash the potentials of the agricultural sector are worth noting (see box 4.1). However, success in agriculture depends not only on national efforts but also on the world community. Only within a framework of a more equitable globalization process, in which developing Asia has a chance to participate in the fair trade of agricultural products, can this sector contribute to employment creation and poverty reduction.

⁸ *ibid.*, pp. 114-115.

⁹ *ibid.*, p. 109.

Box 4.1

Tapping the agricultural sector

Large corporations in India like ITC are using computers to provide farmers with district-specific weather reports, information on market prices of crops and advice on modern growing methods. By following that advice and using hybrid seeds, wider spacing between plants and better application of fertilizers, individual farmers have been able to dramatically increase agricultural yields from their small plots of land.

Indian corporations are reaching out from the boardrooms of Mumbai and Kolkata to the agricultural plots with the aim of increasing farmers' yields so as to bolster their own food-processing and export operations, and along the way to sell tractors and consumer products to prospering farmers. One telecommunications giant, Bharti Group, plans to market fruits and vegetables to the Middle East and Europe. Industrial behemoth Tata is growing mustard seeds and grapes for export; while Mahindra, a car and tractor maker, is farming corn and grapes under contract to export to Europe. They are all looking to capitalize on what is now seen by many as India's biggest untapped resource – its agricultural sector. Some 660 million Indians live off the land; the sector accounts for about 21 per cent of India's GDP.

Companies are betting that better technology and a more selective choice of crops can vastly bolster the country's agricultural exports. Until now, the sector has been weighed down by poverty, appalling infrastructure and small, unproductive farms. Furthermore, state intervention acted as a disincentive to innovate. In 2004, the Government spent US\$5.7 billion on subsidies, largely on price supports for, and purchases from, rice and wheat growers. In the 2005 budget, food subsidies will fall by some 10 per cent, while fertilizer subsidies will rise by more than 25 per cent. The Government has now enacted policies, including tax holidays for agricultural exporters, to modernize the agricultural sector. The budget also earmarks funds for rural development, including irrigation schemes.

The challenge is also to alter the mindset among farmers who until now made decisions largely based on grain subsidies. But the share of grains in India's exports has been dropping. To reverse the decline, India needs to produce more edible oils, fruits, vegetables and flowers. Diversification and increased productivity is what ITC is promoting with its computer programme, which seeks to increase farmers' yields, raise their income and boost their confidence to try their hand at more lucrative crops. Within ten years, the company hopes to be electronically connected to 100,000 villages and 10 million farmers. Other Indian companies are tempting farmers to move up the value-added production chain with profits. They are demonstrating that, by growing more valuable crops, farmers can make US\$600 rather than US\$125 an acre on rice and wheat. More relaxed rules on food retailing have foreign chains like Wal-Mart, Tesco and Carrefour eyeing India's rural markets.

Source: R. Moreau and S. Mazumdar: "Green profits", in *Newsweek*, 14 Mar. 2005.

A striking feature of developing Asia is that lean manufacturing operations and high-tech services industries exist side by side with a largely low-skilled and low-productivity urban informal economy. Many firms and workers have no choice but to be informal because of the very high costs involved in becoming formal.¹⁰ As a result, significant resources are trapped in low-

Creating better jobs in the informal economy and reducing working poverty

¹⁰ For example, it takes firms in Indonesia some 11 procedures requiring 128 work-days to set up a business, in China 12 procedures and 92 work-days, in the Republic of Korea 13 procedures and 27 work-days, in the Philippines 14 procedures and 46 work-days, and in Viet Nam 16 procedures and 112 work-days. ADB: *Asian Development Outlook 2003*, op. cit.

productivity operations with no access to capital. Despite these drawbacks, it is increasingly recognized that there are many opportunities for improving employment opportunities and labour standards and thus reducing decent work deficits in the informal economy.

Clearly, a large informal economy is not a sign of favourable economic development. On the contrary, it points to the existence of a dual economy. But given the existence of the huge informal economy in many Asian countries and the problems of matching demand with supply of labour in the formal economy, a realistic option is to focus on transforming this large pool of human potential into a more productive one. Increasing the productivity of informal economy workers will go a long way towards reducing working poverty.

Some key elements set out in the resolution concerning decent work and the informal economy, adopted by the 90th Session of the International Labour Conference in 2002, are worth noting:

- To promote decent work, it is necessary to eliminate the negative aspects of informality while at the same time ensuring that opportunities for livelihood and entrepreneurship are not destroyed, and promoting the protection and incorporation of workers and economic units in the informal economy into the mainstream economy. Continued progress towards recognized, protected decent work will only be possible by identifying and addressing the underlying causes of informality and the barriers to entry into the economic and social mainstream.
- Informality is principally a governance issue. The growth of the informal economy can often be traced to inappropriate, ineffective, misguided or badly implemented macroeconomic and social policies, often developed without tripartite consultation; the lack of conducive legal and institutional frameworks; and the lack of good governance for proper and effective implementation of policies and laws.
- A conducive policy and legal environment lowers the costs to establish and operate a business, including simplified registration and licensing procedures, appropriate rules and regulations, reasonable and fair taxation. It also increases the benefits of legal registration, facilitating access to commercial buyers, more favourable credit terms, legal protection, contract enforcement, access to technology, subsidies, foreign exchange and local and international markets. Besides, such policies discourage businesses in the formal economy from shifting into the informal economy. This helps new businesses to start and smaller businesses to enter the formal economy and to create new jobs, without lowering labour standards. This also increases state revenues.
- Legislation is an important instrument to address the all-important issue of recognition and protection for workers and employers in the informal economy [...] Obstacles to the recognition of legitimate, democratic, accessible, transparent and accountable membership-based organizations of workers and employers in the informal economy must be removed, so that they are able to participate in social dialogue structures and processes.

(ii) Youth employment: Crucial in the life cycle for decent work

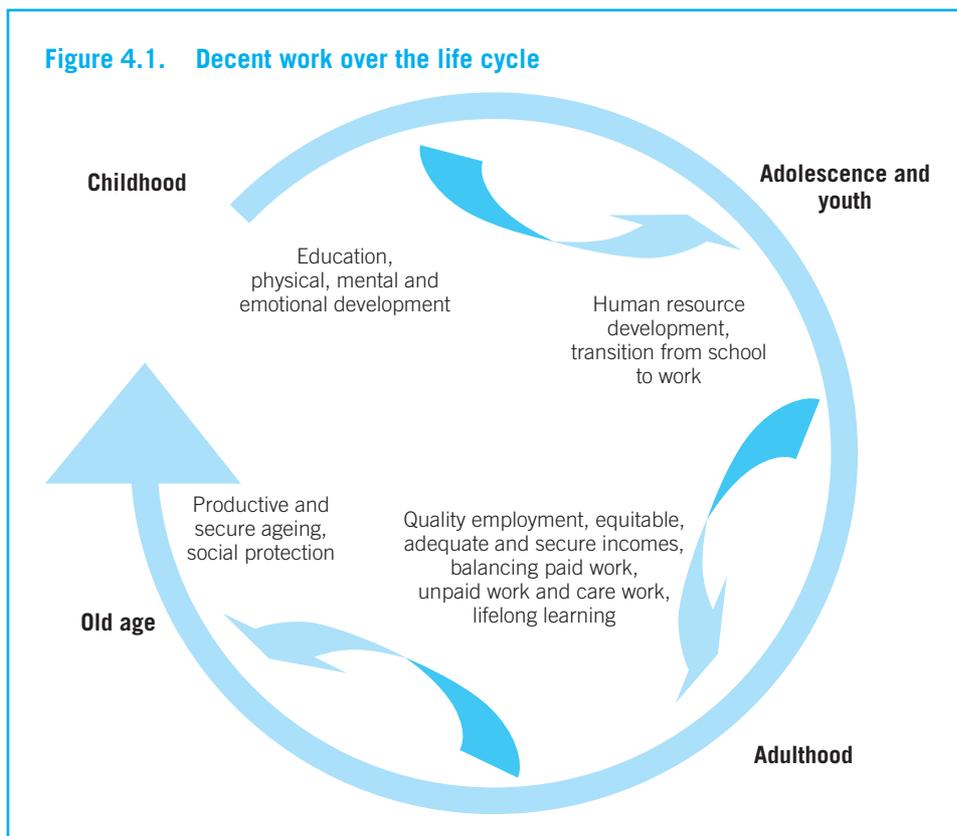
Adopting a life-cycle perspective to decent work

A life-cycle perspective is important for achieving decent work. Identifying the key stages of life when people are vulnerable to falling into poverty is the starting point for understanding the dynamics of life and work of poor

communities¹¹ (see figure 4.1). It is during the formative stages of childhood and youth that enduring aspects of personal development take place and determine “success” or “failure” in later life. The opportunities and experiences of these formative stages shape people’s ability to access and maintain decent work and enjoy security and protection throughout the rest of their lives. The transition from childhood to adult life, from school to work, can greatly determine a person’s chances of escaping poverty. Children in hazardous work become young adults with poor employment prospects who are unable to lift their own families out of the poverty trap, give their own children a better life, or contribute effectively to national development.

The life-cycle approach also emphasizes that economic and social reproduction cannot be separated, and that concepts of decent work and job quality must incorporate elements recognizing that workers also have family and civil responsibilities, in the interest of better harmonization of paid work and unpaid work. It also takes into account the fact that more and more women and men have flexible working lives, change jobs and work status and move in and out of the labour force at various times of their lives. Thus, their need for lifelong learning and social protection to deal with such changes is greater than ever.

A life-cycle perspective recognizes the need for security with change. From one end of the life course to the other, people are exposed to various risks and insecurities for which they need social protection. With rapid ageing of the population, decent work at later stages in the life cycle is equally important. The significant accumulation of human capital in older workers



¹¹ ILO: *Working out of poverty*, Report of the Director-General, International Labour Conference, 91st Session, Geneva, 2003, p. 22.

must not be lost: opportunities and incentives that promote their full and productive employment can provide flexible pathways from work to “retirement” and will become increasingly important. Such measures could mitigate not only the welfare challenge but also the impact of a shrinking labour force on productivity and economic growth. Labour-saving technologies which may spur technological development and provide a boost to productivity growth are also likely to become more important. The rising demand for health-care services and retirement benefits for the elderly will also have to be met. The fiscal implications of this may be serious, given that public expenditure will have to grow, even though the tax base is likely to shrink owing to the falling share of the working-age population.

A life-cycle perspective has a clear gender dimension. If girls more than boys face negative cultural attitudes and practices and discrimination from birth (still very evident from unbalanced sex ratios in some countries), they will grow up to be women with greater constraints and few choices and opportunities. Even if girls perform better than boys in school, they still find it harder to enter and succeed in the labour market. In turn, they become mothers who are far more vulnerable to poverty and far less able to influence the lives of their daughters and sons in a positive way. Girls and women must be empowered to create choices and make smooth transitions from one stage of life to another, and older workers, who are most likely to be female, must have access to social protection when they need it most.

Why focus on youth employment? The potential of the “Millennium generation”

... youth constitute the core resource for ASEAN’s prosperity and progress in the new millennium, particularly in addressing the challenges of rapid global and regional integration arising from more intensive trade liberalisation and the expanding use of information and communications technologies (ICT).

Yangon 2000 Declaration on Preparing ASEAN Youth for the Challenges of Globalisation.

From a life-cycle perspective, all ages are important, although the sheer numbers of young people cited in Chapter 2 easily show why youth should take centre stage. But young people have enormous inherent potential, quite apart from their demographic importance. They are the “Millennium generation”, the generation of young Asians who will be entering the labour force for the first time during the twenty-first century. What they do – as workers, entrepreneurs, innovators, agents of change, citizens, leaders and parents – will shape economic, social, political and technological developments. They are Asia’s greatest asset, but their potential is not being realized because they lack access to productive and decent jobs.

The ILO has estimated that halving youth unemployment would increase GDP by between 1.5 and 2.5 per cent in East Asia, between 4.6 and 7.4 per cent in South-East Asia, between 4.2 and 6.7 per cent in South Asia, and between 7.1 and 11.4 per cent in West Asia.¹²

¹² ILO: *Global employment trends for youth*, Geneva, 2004, table 7, p. 21.

Starting with the links between child labour and youth employment¹³

The linkages between child labour and youth employment are critical. Child labour tends to exacerbate the problem of youth employment in so far as it prevents children from acquiring the education and skills needed to compete in the labour market as young adults. But it is not enough to eliminate child labour without ensuring that the alternative provides opportunities for education and the acquisition of skills that are in demand and improve the employability of young people. The lack of opportunities for education and training is indeed one reason why child labour is sometimes seen as the way to acquire the experience and skills needed to improve labour market prospects. Efforts to alleviate the problems of child labour and youth unemployment and underemployment are less likely to be successful if those problems are tackled separately.

Children and young people fall into partially overlapping age brackets. Those between the ages of 15 and 18 years are, according to ILO Conventions, generally free to work and to be employed as long as they are not engaged in the so-called “unconditional worst forms” of child labour or in hazardous forms of work. In Asia, however, there are an estimated 6.6 million children in the worst forms of labour and another 104 million aged 5-17 years exposed to hazardous work (see box 2.5). The detrimental health effects of premature employment and hazardous work tend to impair employability during the most vigorous and productive years of youth, and sometimes even for a lifetime. Action to remove the hazards from the working environment or to facilitate the transition of adolescents from prohibited forms of work into non-hazardous occupations would serve to convert child labourers into young employed people.

There is a cruel irony in the coexistence of child labour with youth unemployment and underemployment. While a demand for certain types of labour is met by children who should not be working, there is also a supply of labour from young people that goes unused or underused. Measures that promote better functioning labour markets would help to reorient the demand for labour away from children towards young people. But there must, of course, be the necessary safeguards to ensure that young people, too, are protected from exploitation in the forms of work open to them.

Young people face certain age-specific difficulties in the labour market

The youth employment challenge is, on the one hand, closely related to the more general issues, not related to age, concerning the quantity and quality of employment in a country. Unless productive employment is at the heart of macroeconomic and social policies and the aggregate demand for labour is expanding, it is not possible to have successful programmes to integrate disadvantaged youth into the labour market. On the other hand, the youth labour market has its own particular and problematic dimensions. It is not just that young workers experience the adverse effects felt by all workers when the labour market is tight; their share of these effects is disproportionately large.

Young people face certain age-specific difficulties in making the transition from the education and training system to the labour market. These include:

¹³ ILO/IPEC: “Child labour and youth employment linkages: Conceptual framework and generic terms of reference for national policy studies and related activities”, draft (Geneva, 2004).

- lack of employment experience – since employers prefer experienced workers, they often find themselves at the back of the queue for jobs;
- “insider–outsider” effects (adults already in the labour market have an advantage over young people trying to enter it) related to strict labour market regulations (in particular employment protection regulations and minimum wages);
- wage and job reservations that young people have for entering the labour market (the level of remuneration and type of job they are prepared to accept) – there is often a mismatch between youth aspirations and labour market realities;
- constraints on self-employment and entrepreneurship development; and
- lack of organization and voice – because young people are often not represented in trade unions or employers’ organizations and have few channels through which they can make their concerns and needs heard.

National policies to promote youth employment

Integrating youth issues in national employment policy

The most effective means of promoting youth employment is to ensure an economic policy environment that stimulates growth with high employment creation. This would generally require a high rate of economic growth coupled with incentives and institutions to make growth employment-intensive. Much could be achieved by making employment central in economic and social policies and by using social dialogue to design sound labour market policies.¹⁴

Nevertheless, there are proactive policies and programmes which countries can adopt to create more and better jobs for young people. These are especially important in the areas of education and training and active labour market policies (ALMPs) that target young people to help them make the transition from school to work.

Education and training for young people

Education is the first step towards decent work and productive and responsible lives for young people. Most Asian countries have made significant progress towards achieving the MDG of universal primary education by 2015. But investments are needed to further boost basic education for young people, especially young women and other disadvantaged groups such as those with disabilities and ethnic minorities. This should include non-formal and informal learning and distance learning for those who have missed out on formal schooling and, importantly, measures to reduce drop-out rates and increase completion rates. In countries such as Cambodia, Lao People’s Democratic Republic and Nepal, completion rates are only about 50 to 60 per cent.

It is not just the level but the quality and relevance of education and training that are important for decent work. Many young people face difficulties finding a job because of the mismatch between educational outcomes and labour market requirements. In West Asian countries, whether labour-abundant or labour-importing, employers regularly cite the lack of appropriate skills as an important constraint in hiring, in some cases suggesting that it outweighs concerns about labour market regulations.¹⁵ In East Asia, too, the problem of skill mismatches is serious (see for example box 4.2). Where the quality of education is poor and formal schooling is not considered useful, especially in relation to the cost involved, young people from poor families may drop out of school and enter the labour market earlier than they otherwise would.

¹⁴ ILO: *Starting right: Decent work for young people*, background paper, Tripartite Meeting on Youth Employment: The Way Forward, Geneva, 13-15 October 2004, p. 17.

¹⁵ World Bank: *Unlocking the employment potential in the Middle East and North Africa: Towards a new social contract* (Washington, DC, 2004), p. 200.

Box 4.2

Addressing youth unemployment in the Republic of Korea

Unemployment among Koreans aged 15-29 years reached 8.6 per cent in December 2003, more than twice the overall jobless rate of 3.6 per cent. Graduates fared the worst. In 2003, six out of ten higher education graduates failed to find jobs. A survey by the Ministry of Labour found that new college graduates accounted for only 18.2 per cent of all recruits in 2002, compared to 59.3 per cent in 1997.

The Government has therefore drawn up plans to provide more opportunities for young jobseekers. In 2004, it was to spend some 517 billion won, up from 362 billion in 2003, on subsidies to companies that hire jobless youth, on vocational programmes and on public sector job-creation efforts. The job-creation programmes last between six months and a year. They are designed to give young people a chance to improve their job skills and gain experience in the private and public sectors. In 2004, government ministries were expected to offer 142,000 places in their own job-creation programmes. But the Ministry of Labour realizes that there is no quick panacea for the problem and is aiming to stabilize the youth unemployment rate at around 5 per cent over the next four years.

Business leaders complain that universities have failed to foster the kind of competitive workforce they need and that, despite the high unemployment rate, they have a hard time recruiting qualified employees. Industry groups have called for changes to the country's rigid higher education system, saying that it should include more practical training. In a survey of engineering graduates between 2001 and 2003, 90 per cent felt they needed more training before starting their jobs. Some universities have been trying to adapt. Seoul National University, whose graduates were once snapped up, is now offering its students training courses and lectures from business leaders, start-ups and headhunting firms to help enhance their job search skills and interview techniques.

Source: Kim Jung Min, "Victims of efficiency", in *Far Eastern Economic Review*, Hong Kong, 29 Jan. 2004.

Many countries have been looking to reform their vocational education and training (VET) systems to bridge the gap between formal education and training and the world of work, to redress skill mismatches and to better prepare young people to participate in rapidly changing labour markets. The ILO's Human Resources Development Recommendation, 2004 (No. 195), has particular relevance in this context. VET reforms have focused on integrating vocational and general education by merging various types of educational institutions and providing workplace-based learning. The development of core work skills (such as communication, learning-to-learn, teamwork and problem solving) is an important component of reforms; such skills are portable across occupations, enterprises and sectors, and are crucial for employability and lifelong learning. Countries such as Australia and New Zealand have introduced broad, competency-based training programmes that meet the requirements of adaptability and flexibility in rapidly changing labour markets. Singapore's Critical Enabling Skills Training (CREST) programme aims to develop generic or core work skills that should apply nationally as a basis for employment, regardless of the specific education or training options pursued. But many developing Asian countries still face a major challenge of providing skills training programmes for young people that are flexible, employment-oriented, learner-centred and gender-sensitive.

A dual system combining school-based education with work-based training and apprenticeship can be important for imparting skills to young

Reform of VET systems to reduce skill mismatches and increase employability

people and facilitating the transition to the labour market. In India, under the Apprentices Act, 1961, employers are obliged to engage a certain number of trade apprentices based on the number of employees and type of industry. Enterprises are required to impart on-the-job training, while theoretical instruction is offered in state training centres. On completion of training, trade apprentices have to pass the All India Trade Tests conducted by the National Council of Vocational Training. Apprentices receive stipends paid by the employer, which increase with each year of training.¹⁶

School-to-work transition programmes

Asian countries have also developed specific initiatives to help young people bridge the gap between school and the labour market. Labour market information (LMI), job search techniques and career guidance are increasingly crucial. To ensure that LMI is easily accessible to young people, job fairs, job banks, the Internet, trade union databases, and the like, are increasingly common. Career guidance and counselling need to be provided as early as possible; if offered as the first stage of labour market programmes, they can play a key role in identifying and tailoring employment and training opportunities and in helping people to make realistic choices. In addition, there could be special measures and support services to assist young people in migrating for employment, whether within the country or abroad. Young people are the most mobile population group but require proper information and support services if they are not to fall into the hands of unscrupulous recruiters, smugglers or traffickers.

Increasing labour demand for young people

Active labour market policies (ALMPs) and programmes have increasingly been applied to improve the labour market integration of young job-seekers and the underemployed. They complement rather than replace macroeconomic policies and, if properly designed and implemented, can target the most disadvantaged young people. The advantages and drawbacks of ALMPs are highlighted in box 4.3.

Public works and community services have been used by many Asian governments, especially during economic downturns and in the aftermath of natural disasters. For example, employment-intensive approaches have been an important response in countries affected by the tsunami of 26 December 2004. The extent to which they have targeted young people has yet to be assessed. Although such programmes do not offer long-term employment solutions, they can increase the productivity of low-skilled workers, as well as helping young participants to gain a foothold in the labour market. The wider benefits are seen not only in terms of the upgrading of physical and social infrastructures but also in terms of potentially improved relations between young people and the local community. Sri Lanka's Youth Corps, for example, fits young people into community-defined development projects.

Employment subsidies, being more expensive, are less common as an ALMP tool, especially in poorer Asian countries. In any case, where the bulk of the labour force is in the informal economy, government support to employers to hire young people has limited impact on the overall magnitude of the youth unemployment and underemployment problem.

There is greater potential in promoting entrepreneurship for young people – especially for addressing working poverty among the young. The elements necessary for a comprehensive youth entrepreneurship promotion strategy include: supporting an entrepreneurial culture; promoting enabling policies and regulations; and building capacity for the provision of support

¹⁶ ILO: *Youth: Pathways to decent work*, Report VI, International Labour Conference, 93rd Session, Geneva, 2005.

Box 4.3

Promoting youth employment through ALMPs

Several evaluations of ALMPs have shown that in order to enhance participants' chances of gaining a foothold in the labour market, programmes should avoid:

- *deadweight losses* (the same result would have been achieved without the government programme);
- *substitution effects* (subsidized participants may replace non-participants who are already in the labour market);
- *displacement* (output of subsidized activities may displace that of non-subsidized ones; and
- *creaming off* (helping those who are already better off).

Some of the main features of ALMPs

Type of ALMP	Opportunities	Challenges
Temporary public works and community services	<ul style="list-style-type: none"> – help youth gain labour market attachment; – improve physical and social infrastructure; – increase employability if combined with training. 	<ul style="list-style-type: none"> – low labour market integration capacity; – young workers can be trapped in spiral of temporary public works programmes; – often gender-biased; – displacement of private sector companies.
Employment subsidies	<ul style="list-style-type: none"> – can create employment if targeted to specific needs and groups of disadvantaged youth. 	<ul style="list-style-type: none"> – high deadweight losses and substitution effects (if not targeted); – employment may last only as long as the subsidy.
Entrepreneurship promotion	<ul style="list-style-type: none"> – can have high employment potential; – may meet youth aspirations; – more effective if combined with financial and other services, including mentoring. 	<ul style="list-style-type: none"> – can create displacement effects; – may have high failure rate which limits the capacity to create sustainable employment; – often difficult for youth owing to lack of networks, business experience, know-how and collateral.

Source: P. Auer et al., *Active labour market policies around the world: Coping with the consequences of globalization* (Geneva, ILO, 2004).

services.¹⁷ Young people can have the ideas and the drive for entrepreneurship but they are often handicapped by their lack of information and support networks and the fact that they are considered a high-risk group by financial institutions. Efforts to help young people to start businesses should therefore include access to credit and support for establishing cooperatives, which would enable them to act collectively. In Sri Lanka, for instance, in response to the serious youth unemployment and underemployment problem, the Poverty Reduction Strategy Papers (PRSPs) focus on the development of an entrepreneurial culture and attitude among young people,

¹⁷ See, for example, ILO: Governing Body doc. GB.289/ESP/1, 289th Session, Geneva, 2004.

creating economic opportunities for entrepreneurial activities and the development of an entrepreneurship-related curriculum in vocational and secondary schools.

Does labour market regulation help or hurt young jobseekers?

An issue that is still being debated is the impact of labour market regulation on youth employment. Evaluation studies are not available for Asian countries, but those done in OECD countries have not identified a statistically significant link between the strictness of employment protection legislation and levels of youth employment. Other studies on greater flexibility in the use of fixed-term contracts find an increase in the recruitment, but also in the turnover, of young workers.

Countries such as India, Malaysia and Nepal have adopted lower minimum wages for young people in some sectors of the economy, for example agriculture and tea plantations. Youth rates are applied on the assumption that statutory minimum wages would price young workers out of the labour market because of their lower productivity. But again research, albeit outside Asia, does not find strong grounds for reducing the minimum wages paid to young people as a means of cutting youth unemployment or increasing demand for young jobseekers.

Employers' and workers' organizations play a critical role in promoting youth employment

Where employers' and workers' organizations have been closely involved in designing and implementing labour market policies, in strengthening the links between education and training institutions and the requirements of the labour market, and in conceiving and implementing sectoral policies and public works, the results for youth employment have tended to be more positive.

The experience of many training institutions in Asia has shown that where employers are closely involved, the training is much more likely to be relevant to labour market demands. Employers then also tend to be better acquainted with the quality of those trained and more willing to recruit them. Another aspect is mentoring and support to young entrepreneurs. The Employers' Confederation of the Philippines (ECOP) supported the establishment of the Philippine Youth Business Foundation (PYBF). In New Zealand, WISE, a network for women who are self-employed or interested in self-employment, provides support for young women going into business, by keeping them up to date with legislation and business trends and helping them to meet role models.

Trade unions have long been championing the cause of youth employment. Global and regional unions give high priority to the recruitment of young people as union members, thus enabling them to have representation and a voice and promoting their long-term prospects for good quality employment.

Global and regional cooperation to promote youth employment

At the global level, the youth employment problem is given prominence in the Millennium Declaration, which resolved to "develop and implement strategies that give young people everywhere a real chance to find decent and productive work" (paragraph 20). The United Nations system placed this commitment within the framework of MDG8 (Target 16) on global partnerships for development, to be implemented through partnerships between governments, employers, workers and civil society, the business community and young women and men themselves.

The Secretary-General of the United Nations, together with the Director-General of the ILO and the President of the World Bank, initiated the Youth Employment Network (YEN). The ILO has taken the lead in organ-

izing the work of the YEN and hosting its secretariat. The ILO's lead role in the YEN has provided it with the opportunity to build international consensus on decent work for young people and to influence the international agenda with a comprehensive strategy on employment.

In December 2002, the United Nations General Assembly adopted a resolution on promoting youth employment, which calls upon member States to prepare national reviews and action plans on youth employment and to involve youth organizations and young people. The YEN lead countries in the region in this effort are Indonesia, Islamic Republic of Iran and Sri Lanka. As reported in Volume I for the 14th ARM, the ILO has been helping these countries to develop their national plans of action on youth employment.

At the subregional level, too, a number of initiatives focus on youth employment. Importantly, there have been several declarations since 1983 to strengthen ASEAN collaboration on youth. The ASEAN Manila Declaration on Strengthening Participation in Sustainable Youth Employment is reproduced in box 4.4.

While the other subregions are not so well advanced in collaboration on youth employment, there is clearly scope not only for extending the ASEAN experience but also for broader networking of the subregional institutions dealing with education and training and employment creation for young people, for strengthening linkages between networks of youth entrepreneurs and workers, for developing more comprehensive information bases, and so forth.

(iii) Labour migration: Towards a regional framework

A common stake in managing migration

The high priority accorded to migration issues is evident from the recommendations of a long list of recent meetings of governments and especially of labour ministers and organizations of workers and employers in Asia. The challenge facing the region is how to ensure that labour migration is managed properly for the benefit of all.

In West Asia, the current major concern relates to the excessive dependence on foreign labour, which, it is felt, must be reduced if there are to be employment opportunities for the ever increasing numbers of native young jobseekers. It is becoming increasingly clear, however, that dependence cannot be reduced simply by imposing bans or quotas on the hiring of foreign workers, without a fundamental reform of labour market policies. In East Asia, on the other hand, the rapid ageing of the population is leading to a decline in native workforces.

Asian countries have sought to make the processes of labour migration more orderly and organized in order to provide certain basic guarantees of labour protection and to achieve beneficial outcomes for origin or destination societies. However, the experience of the last decades suggests that:

- the management of temporary migrant worker programmes and measures to deter more permanent settlement is increasingly complex and constrained;
- much more remains to be done if the treatment of migrant workers is to be compatible with the relevant ILO Conventions;¹⁸

¹⁸ The Migration for Employment Convention (Revised), 1949 (No. 97), and the Migrant Workers (Supplementary Provisions) Convention, 1975 (No. 143).

Box 4.4

Manila Declaration on Strengthening Participation in Sustainable Youth Employment

Fourth ASEAN Ministerial Meeting on Youth (AMMY IV), Manila, Philippines, 3-4 September 2003

WE, the Ministers Responsible for Youth, of the ten ASEAN member countries: Brunei Darussalam, Kingdom of Cambodia, Republic of Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Republic of the Philippines, Republic of Singapore, Kingdom of Thailand, and the Socialist Republic of Vietnam;

HAVING gathered in Manila on 3-4 September 2003 for the Fourth ASEAN Ministerial Meeting on Youth (AMMY IV);

DESIROUS TO strengthen the gains brought about by and consistent with the *Jakarta Declaration* of the First AMMY in 1992, the *Kuala Lumpur Agenda on ASEAN Youth Development* of the Second AMMY in 1997; and the *Yangon 2000 Declaration on Preparing ASEAN Youth for the Challenges of Globalisation* of the Third AMMY in 2000;

FURTHER AFFIRMING the UN Millennium Summit Declaration, particularly the resolution to implement strategies to give young people everywhere a real chance to find decent and productive work;

RECALLING the Youth Employment Network initiated by the UN Secretary General, in collaboration with the ILO and the World Bank during the Youth Employment Summit in Alexandria, Egypt;

EMPHASIZING the importance of youth as a vital human resource of ASEAN nations and the need to formulate and implement youth development policies and programs to realise the potential of this segment of ASEAN's population;

UNDERSCORING our commitment towards empowering the ASEAN youth so that they are fully confident and capable of meeting the challenges of globalisation;

RECOGNISING that continued support through policies, programs, and technical interventions is necessary to sustain the strength and vitality of the youth sector within ASEAN societies;

MINDFUL of the Hanoi Plan of Action, priorities calling for implementation of the ASEAN Work Programme on Skills Training on Out-of-School Youth, to strengthen their capacity to obtain gainful employment, and to foster small and medium-sized enterprises which constitute the majority of industries in ASEAN and play a significant role in the over-all economic development of ASEAN nations;

SEEKING to address unemployment and under-employment as an emerging major area of concern for the youth of ASEAN within the context of globalisation;

DO HEREBY DECLARE to strengthen participation in sustainable youth employment through the following:

1. **Improve** the availability and quality of human resources training and leadership development programs designed specifically for ASEAN youth so that they are better equipped to participate in the growth and development efforts of their respective countries;

2. **Ensure** that all youth subsectors, particularly the out-of-school youth, youth with special needs, youth-at-risk, are given appropriate access to policy and program development both as beneficiaries and partners in sustainable employment;

3. **Prioritise** entrepreneurship and sustainable employment on ASEAN's development agenda to open new opportunities for the young people that would allow them to create a better future for themselves and their ASEAN community;

4. **Create** a nurturing environment conducive for the development of young entrepreneurs with access to education, skills-training, and capacity-building that is essential for increased productivity and self-employment;

5. **Promote** the spirit and the culture of entrepreneurship among the ASEAN youth and facilitate the establishment of small and medium-sized enterprises that would create jobs and address the unemployment issue of young people so that they would become productive partners for a strong ASEAN region;

6. **Establish** a network of young entrepreneurs at the national and ASEAN level so that they could link up and together build their capacities and skills for better competitiveness in the global market place;

7. **Strengthen** the participation of youth volunteer groups and organisations in the socio-economic development process so that they would be able to augment and complement government and non-government resources and efforts directed at youth development;

8. **Enhance and strengthen** international, regional, and national partnerships with educational institutions so that these can perform an active role in improving the skills, competence, and employability of ASEAN youth, as well as help in developing an integrated and systematic enterprise development and youth employment program for the region;

9. **Encourage** closer linkages between ASEAN and other like-minded organisations addressing youth employment concerns to further pursue innovative approaches in jointly addressing the global challenge of youth employment; and

10. **Implement** the ASEAN Work Programme on Preparing ASEAN Youth for Sustainable Employment and Other Challenges of Globalisation, adopted by the 4th ASEAN Ministerial Meeting on Youth.

- structures and procedures for involving workers' and employers' organizations in the formulation and implementation of migration policy are still lacking; and
- action by individual sending and receiving countries, or even bilateral arrangements, are increasingly inadequate, and there is merit in moving towards a more regional framework for migration.

National approaches to managing labour migration

Labour-receiving countries

While there are important differences between countries, the management of labour migration in Asia has certain common characteristics. In the case of labour-receiving countries, these include:

- unilateral management of labour immigration;
- admission of workers only under temporary (or “guest worker”) and “trainee” schemes;
- exclusion of migrant workers from long-term benefits;
- addressing irregular migration through periodic amnesties.

Almost all receiving States in Asia have so far avoided entering into bilateral agreements with States of origin for the joint management of labour migration. This has limited the role that origin States play in the processes of recruitment and placement of their workers abroad. Labour migration processes have been left very much in the hands of private intermediaries, and widespread commercialization has opened up the system to abuse – prompting some receiving States to seek the cooperation of origin countries in finding solutions.

In order to bring some order to the movements of workers from neighbouring countries, Thailand recently signed “memoranda of understanding” with the Lao People’s Democratic Republic, Cambodia and Myanmar, requiring the active participation of both sending and receiving governments. The employment of workers requires the prior permission of the authorized agencies of the respective countries, the submission by one country of a list of available jobs and by the other of a list of selected applicants for these jobs, and supervision by both sides to ensure that appropriate visas and work permits are issued, that workers comply with requirements for health insurance, savings fund contributions, taxes and employment contract.

Except in Australia and New Zealand, immigration is viewed in the region mainly as a counter-cyclical measure to meet temporary shortages in the labour market. As an immigration measure, guest worker schemes work reasonably well in meeting labour shortages during upswings in construction activity and for seasonal agriculture, but run into problems where jobs are not inherently “time-bound”, as in regular factory work or in regular services.

In the early 1980s, Singapore announced plans to reduce the proportion of foreigners in its labour force and introduced a foreign worker levy to discourage employers from hiring non-nationals. Today, that proportion is actually much higher, at nearly 30 per cent of the total workforce. In West Asia, the population of migrant workers has not declined with downturns in the economy, suggesting that some form of “labour hoarding” takes place. In its Sixth Five Year Plan (1995-2000), Saudi Arabia planned to provide 320,000 more jobs for Saudi youths entering the workforce partly through replacement of foreign workers, but the number of foreign workers actually rose by 58,000 during the period.

The “trainee schemes” associated with both Japan and the Republic of Korea have raised issues for the management of migration. In the case of the

Limits to unilateral approaches

Inadequacy of temporary schemes

Republic of Korea, the high drop-out rate of workers who prefer to work for wages, rather than allowances, has been widely blamed for the growth of the irregular migrant worker population. The scheme has since been modified to encourage “trainees” to stay in the programme by guaranteeing at least one year of regular employment after completion of a prescribed training period.

*Making temporary
worker programmes
work*

Instead of providing incentives for migrant workers to return home, most countries seek to ensure that their stay is temporary by excluding them from long-term benefits. An example is social security, where temporary employment already makes it difficult for most migrant workers to qualify for old-age pension benefits, and it is not uncommon in addition to find laws that exclude them from such benefits, even when they are eligible in terms of the number of years of contributions. This has put migrant workers who spend a considerable part of their working lives in foreign countries at a distinct disadvantage unless their own governments set up special schemes in their social security systems to cater for nationals employed abroad.

*Exclusion from social
protection does
not discourage workers
from staying on*

As demonstrated in other regions, arrangements could be made that would allow short-term migrants to accumulate entitlements to old-age benefits and to ensure an equitable sharing of the cost of meeting such contingencies among countries. Unfortunately, exclusion from social security and other entitlements is often considered a necessary component of strategies to encourage rotation among migrants and to discourage settlement – even if there is no evidence that such exclusion actually makes any difference to length of stay. Positive measures, such as end-of-service bonuses which increase with migrants’ contributions to social security, are likely to have greater impact on motivating migrants to return home and making this a real and durable option.

*Problems of irregular
migration cannot be
addressed only through
migration controls*

The biggest challenge to policy-makers has been the growth of clandestine migration, trafficking and the consequent large populations of irregular migrants. A common approach to the problem is to declare amnesties with a view to registering irregular migrants and converting them into legal temporary migrants. But countries are recognizing that irregular migration needs to be tackled on a broad front since it has many dimensions, including concerns over national security, relations with friendly neighbouring States, the human rights of all migrant workers whether their status is regular or irregular, and the impact on labour costs in labour-intensive industries that rely on migrant workers.

States like Thailand and Malaysia have long faced the issue of having hundreds of thousands of foreigners without legal status within their borders. They have experimented with various measures to address the problem, including enhanced border controls, amnesties and registrations, deportations, temporary admissions under industry quotas, mobility restrictions to certain areas and, recently, joint management with source country governments. It is clear that migration controls alone will not be adequate to deal with these problems. Reform of labour market policies, the development of strong labour institutions, the involvement of employers’ and workers’ organizations, and cooperation with source countries, are also important elements of an effective approach to the complex issues that arise with migration.

Labour-sending countries

Governments of source countries in Asia have developed approaches to managing migration which commonly include:

- measures to tap employment opportunities;
- regulation of recruitment and setting minimum standards for work contracts;

- insurance of migrant workers against various contingencies;
- assistance to workers abroad (especially through labour attaché services).

Migration for employment is now seen by nearly all national authorities as a growing phenomenon, a feature of globalization processes, and a largely positive development. More and more governments regard labour migration (or labour service exports) as a part of their employment strategies and are adopting measures to take advantage of opportunities. In most countries, this has taken the form of licensing private recruitment companies and labour contractors which, in the absence of government-to-government agreements, have been effective in finding foreign markets for migrant workers.

To assert and defend the rights and obligations of their nationals, sending-country governments have placed the emphasis on the importance of employment contracts and have concentrated on policies and measures to stop and censure violations. Fraud in recruitment, misinformation and contract substitution are viewed as serious offences. However, the tasks of checking on the bona fide character of foreign employers and the validity and adequacy of employment offers, regulating fees payable by workers, registering contracts, penalizing malpractices and prosecuting unlicensed recruiters, and resolving disputes between workers and intermediaries, all present formidable challenges for government agencies. In many sending countries, the responsible government agency is not supported with appropriate legal mandates or adequate budgetary resources.

Origin countries have also had to provide for contingencies such as failure of recruitment and the forced return of their nationals, the legal defence of nationals involved in costly court litigation in countries of employment, medical care for injured workers abandoned by their employers, and conciliating in disputes with employers. Pakistan and the Philippines pioneered the establishment of contributory funds and a specialized agency to use the funds for providing services to migrant workers and their families. Similar institutions have since been established in Thailand and Sri Lanka.

Towards an Asian multilateral framework

The resolution passed unanimously by the International Labour Conference in June 2004 concerning a fair deal for migrant workers in a global economy called for a non-binding, rights-based multilateral framework that would include principles for managing migration based on best practices. All the main elements of the framework appear to be relevant to Asian sending and receiving countries and could go a long way towards ensuring decent work for all migrant workers. Most labour-importing countries in West and East Asia have foreign worker programmes which provide for regular admission systems and for regulated employment conditions, but the problems that have emerged suggest that gaps and weaknesses continue to exist.

The 14th ARM presents a unique opportunity for the countries of the region to consult with each other, at tripartite levels, on how the Asian region might take up the challenge posed by the Conference resolution of June 2004 and come up with a set of principles and guidelines on a rights-based management of labour migration. Such a framework could take into account the specific conditions in the region, the policy issues confronting national authorities, traditions of governance, and the benefits of spreading good practices. The various elements that could be developed for such a non-binding, rights-based regional migration framework are:

- *Assessment of labour supply and demand in the region as a rational basis for decisions on future migration.* This first element of a regional migration framework would engage countries in reviewing their labour market conditions over the next ten years in the light of demographic

Banking on job markets abroad

Defending migrant workers' rights

Providing for contingencies

***“A fair deal for migrant workers in a global economy”:
A multilateral framework for Asia***

dynamics, realistic assumptions about the growth of particular sectors, and other factors. For example, such an assessment might benefit countries with a demographic dividend and those with ageing populations (through migration flows).

- *Regional networking for management of labour migration.* This element envisages the establishment of a self-sustaining “process” for enhancing the competence of labour ministries, in consultation with the social partners, to manage labour migration. An operational network, eventually using a web site, could serve as the vehicle for organizing information exchange, training personnel, and facilitating consultations between governments of origin and destination countries. The ILO’s work on developing a non-binding multilateral framework on migration could provide an important knowledge base. Training could also be provided for the ILO’s tripartite partners to assist their efforts to develop know-how in key functions (such as determination of quotas and admissions, regulation of recruitment, enforcement of minimum standards and non-discrimination laws, labour inspections, administration of sanctions, amnesties and regularization, provision of labour attaché services, strategies against smuggling and trafficking, and so on).
- *Asian code of practice for the protection of migrant workers.* The third element of a regional framework would aim to harmonize policies and standards around good practices, particularly for adoption by the private sector, so as to better protect migrants’ rights and ensure them decent work. The practical components could include: efforts to promote ratification of ILO Conventions Nos. 97 and 143 through tripartite consultations and action; assessment of legal obstacles to ratification; promotion of more “inclusive” policies so as to cover migrant workers under national labour laws; promotion of programmes to stop abusive practices in recruitment; comparison of rights and entitlements of migrant workers employed in different Asian countries; documentation of best practices and adoption of a code of practice for the protection of migrant workers.
- *Code of practice for Asian recruitment agencies.* To minimize fraud, abuses and malpractices committed by recruitment agencies, this fourth element would aim to promote certain recruitment practices and principles among associations of private recruitment agencies in Asia. A survey of good practices could be undertaken by the ILO to serve as the basis for a code of practice. Regional meetings involving representatives of national associations of recruitment agencies could draw up and eventually endorse such a code of practice.
- *Draft ASEAN treaty on social security protection of migrant workers.* This element aims to respond to calls on the ILO to help design a social security treaty for migrant workers of the ASEAN member States, especially with regard to old-age benefits. Opportunities for harmonizing benefits available to nationals of one State when employed in another member country could be studied, including requirements and qualifications for membership and for entitlement to various benefits. A draft treaty could be drawn up for consideration by the relevant ASEAN authorities.

(iv) Governance for making decent work an Asian goal

Good governance at national level

Assessment after assessment of countries in the region stresses that one major barrier to further economic and social progress is weak governance in both public and private-sector institutions. Corruption is endemic in many

countries. The quality of institutions is country-specific, but what is common across countries is the lack of attention to the role of labour market institutions. It was also noted in Volume I of this report for the 14th ARM that national efforts and plans of action for decent work are often constrained by weak labour market institutions and poor enforcement, low technical capacities of the tripartite partners, limited social dialogue, and a lack of policy coherence between economic and social goals.

It is therefore worthwhile to review the fundamentals of “beginning at home” to promote decent work for all. We cannot be prescriptive about what exactly the institutions for good governance should be, or about how quickly we can establish them. But there are certain fundamentals; these are set out in the ILO Declaration on Fundamental Principles and Rights at Work and in the fundamental Conventions to which it refers. The Declaration represents not prescriptions, but basic principles for markets and democracy. If Asian countries can put in place these “enabling rights” through social dialogue and tripartite consultations, they will have the institutions for achieving decent work in a globalizing world.

Good governance starts at the company level – an area where Asian companies still have much to do. Improved corporate governance is a must for Asian companies, especially for those from developing countries, if they are to withstand the intense competition from multinationals at home and in the global markets. In collaboration with workers’ representatives, companies need to develop and strengthen processes and mechanisms not only for collective bargaining but also for consultations on emerging employment issues in a context of rapid change and intense competitive pressures. As Asian companies are moving up to higher value-added production and aspiring to regional or global roles, the quality of labour–management relationships could offer considerable mutual gains to both parties.

Good governance starts at company level

Ratification of ILO Conventions has increased and many countries have introduced reforms to their labour laws, often as a result of the real or perceived effects of intensified global competition. These reforms show a common trend towards stronger commitment to fundamental principles and rights at work, particularly efforts to combat discrimination at work and child labour.

Labour law reform giving effect to principles and rights at work

As part of the shift towards a rights-based approach to global labour markets, some progress has also been made in the field of freedom of association. For example, members of the Gulf Cooperation Council and the Republic of Korea are introducing or improving laws concerning freedom of association. This is an important development, even though there are still countries that allow various forms of exception to legal protections of freedom of association. Agricultural, export processing zone, migrant, domestic and informal economy workers often face many difficulties in exercising the right to freedom of association.

In spite of a strong process of labour law reform in the region, Asian countries still have far to go in actually implementing their international commitments under the ILO Declaration on Fundamental Principles and Rights at Work and its related Conventions.

Compliance with labour law still weak

As emphasized in Volume I of this report, the institutional underpinnings need to be considerably strengthened. While adopting or amending labour legislation in line with ratified Conventions is the first step in buttressing the rule of law and good governance, compliance is dependent on:

- the social partners being aware of and supporting the law (which is less likely if they have not been involved in tripartite consultation processes);

Balancing flexibility, stability and security through social dialogue and tripartism

- labour inspection services being capable of providing practical advice and ensuring even-handed enforcement of the law; and
- labour law being able to facilitate market processes, so that employers and workers together determine the price of labour.

In a rapidly globalizing world, laws and institutions designed for a more sheltered competitive environment are under pressure to adjust. Globalization is prompting employers to push for flexibility in employment protection legislation. Excessive employment protection undoubtedly raises the costs of hiring and firing, which in turn creates barriers to labour mobility. This can constrain productivity growth by impeding the expansion of new, higher value-added sectors. Excessive protection is also a source of labour market duality in developing Asia. On the other hand, many employers know that having a stable labour force with stable skills is important for productivity growth. Employment stability mitigates concerns over job security for the worker and is an inducement to invest in training for both worker and employer, with higher productivity as the result.

Having a system with the right mix of employment protection legislation, collective bargaining, social security, training and retraining is thus important for competitiveness in a global context. The balance must be right, and the way to get it right is through social dialogue and tripartism.

Unions and employers' organizations: the search for renewal

Unions represent a bulwark of good governance; they are a cornerstone of labour market institutions and play a vital role in promoting decent work conditions. But regardless of the workplace and country, unions are facing the same challenges (tougher in some places than in others): globalization, restructuring and privatization. Traditional forms of action are losing their effectiveness, past gains have been renegotiated, and it is difficult for workers to make their voices heard.

In developing Asia, the level of unionization is low and declining. The Philippines recorded the highest union density of over 30 per cent, compared to around 5 per cent in Thailand and Pakistan, and around 10 to 15 per cent in most other countries.¹⁹ Union density is higher in industrialized nations (around 19.2 per cent in Japan²⁰ and 28 per cent in Australia²¹). The main reasons for the decline in union membership are the fall in employment in previously highly organized sectors (such as manufacturing and public services), the rise in employment in small and medium-sized enterprises (SMEs), often in the service sector, and increasing use of flexible types of work contracts. Moreover, the combination of the growth of FDI, rapid technological change and increasing competition across borders have shifted the balance between capital and labour and rendered traditional forms of interest representation less efficient than they were in the past. One pressing task facing the union movement is to address the power and influence of multinational enterprises (MNEs).

Asian employers' organizations have also been experiencing formidable challenges. They have to deal with the increasing diversity of companies: on the one hand, the growing presence of MNEs, which typically remain outside national federations, and on the other hand, the increasing diversity of national firms. Their main task is to represent the interests of and provide services for this diverse business community, whose needs are changing rapidly. Advocacy is focused on achieving an environment in which businesses can be flexible and efficient and thus remain competitive, while services offered directly to member companies must also meet these objectives.

¹⁹ ILO: Governing Body doc. GB.279/WP/SDG/2, 279th Session, Geneva, 2000.

²⁰ Ministry of Health, Labour and Welfare, *Basic survey on labour unions* (2004).

²¹ OECD: *Employment Outlook 2004*, Paris (table 3.3).

Collective bargaining and social dialogue systems in Asia are very diverse as a result of differences in national history, regulations and economic factors. In 2000, collective bargaining coverage was 10 per cent in the Republic of Korea, 15 per cent in Japan, 25 per cent in New Zealand and an astonishing 80 per cent in Australia. Coverage in developing Asia ranged from 2 per cent in India to 33 per cent in the Philippines.²²

Diversity in collective bargaining and social dialogue

A rough indicator of the regional reach of tripartism is the fact that 19 countries in Asia (including the Arab States) have ratified the Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144). The strength of tripartite mechanisms for consultation and negotiation varies with the level of union and employer density and the coverage of collective agreements. In a few Asian countries, governments emphasize tripartism as a means of coordinating policies with unions and employers, in which the decisions of the social partners can have a major impact on the competitiveness of the economy. In other countries, tripartism serves for information sharing and consultation on a variety of employment issues. As economic openness and interdependence tend to erode the autonomy of national policy-making, the importance of tripartism is growing. It provides a mechanism for consensus building and thereby strengthening social cohesion, which is especially important in countries with relatively weak labour institutions at sectoral and company levels.

An important aspect of governance is representation and voice in the informal economy, given the latter's importance in Asian countries. This explains why both trade unions and employers' organizations have been giving attention to the issue of organizing in the informal economy.²³ A range of civil society groups, movements and non-governmental organizations have also been giving visibility to and providing advocacy on informal economy issues. But many of these do not represent informal operators as they are often not membership-based organizations or do not have democratic structures. There are increasing examples of cooperation and alliances between some of these organizations and trade unions and employers' organizations.

Representation and voice in the informal economy

Regional cooperation for building strong governance

The previous chapter showed that regional integration and cooperation have been growing among Asian countries. While the focus has been on trade and economic ties, more recent initiatives also aim to foster social goals. Many of the deeper forms of regional integration incorporate policies and institutions that promote social goals, including education, health, gender equality and protection of vulnerable groups of women and children, and sustainable development.

Decent work concerns addressed in regional and bilateral frameworks

Asian countries share decent work challenges which can be effectively addressed through deeper regional integration arrangements. Where labour market and employment outcomes are no longer within the sole purview of national policies, regional cooperation makes great sense. Decent work concerns are being increasingly addressed in regional and bilateral frameworks. Very significantly, ASEAN labour ministers have:

Expressed their commitment to address the priorities outlined for the ASEAN Socio-Cultural Community as the social pillar of the Bali Concord II, in particular the development of human resources as a key strategy for employment generation, and to ensure

²² ILO: *Organizing for social justice*, Global Report under the Follow-up to the ILO Declaration on Fundamental Principles and Rights at Work, International Labour Conference, 92nd Session, Geneva, 2004, table 3.5.

²³ ILO: *Decent work and the informal economy*, Report VI, International Labour Conference, 90th Session, Geneva, 2002, p. 74.

economic growth with equity. The Ministers reiterated their commitment to address the 9th ASEAN Summit's directive to "continue existing efforts to promote regional mobility and mutual recognition of professional credentials, talents and skills development" and to continue in their quest to reduce unemployment in the region, in support of the regional effort to realise a strong, secure and self-reliant community of caring societies by the year 2020.²⁴

ASEAN has publicly announced its interest in collaborating with the ILO on decent work issues. A joint ILO-ASEAN assessment on the labour impact of the ASEAN Free Trade Area (AFTA) has been conducted, and ASEAN labour ministers have also noted HIV/AIDS in the workplace and youth employment as other priority areas for future technical collaboration with the ILO.

The South Asian Association for Regional Cooperation (SAARC) has signed a convention to deal with "the various aspects of prevention, interdiction and suppression of trafficking in women and children; the repatriation and rehabilitation of victims of trafficking and prevent the use of women and children in international prostitution networks"²⁵ through a regional cooperation framework in 2002.

Asia-Pacific Economic Cooperation (APEC) has recognized the importance of moving children out of hazardous work and into education and skills training, and is working with the ILO in six of its member countries to promote an integrated approach to combating the worst forms of child labour and poverty reduction.

Recent free trade negotiations between the United States, Australia, Bahrain, Jordan and Singapore have incorporated provisions for the right of association, the right to organize and bargain collectively, prohibition of forced labour, minimum age requirements and acceptable working conditions.

Strengthening governance through regional integration and cooperation

Regional integration and cooperation can be an important instrument for building strong governance to make decent work an Asian goal. However, several issues need to be addressed.

First, regional trading agreements (RTAs) and bilateral trading agreements (BTAs) can be building blocks of a rules-based multilateral trading system and can prepare member countries to benefit from more broad-based cooperative arrangements. However, the recent proliferation of such agreements, as described in Chapter 3, is a cause for concern. There are a number of dangers: inconsistencies in trading rules leading to implementation problems for countries that are members of more than one RTA or BTA; further marginalization of countries that are not members of any particular trading agreement; and accelerated competition to forge deals resulting in lower overall welfare gains, if not a "race to the bottom". It will be essential to ensure that the increasing number of such agreements does not create a stumbling block in the development of any future rules-based multilateral system in the world economy. Harmonizing bilateral, subregional and cross-regional trade agreements requires urgent attention.

Going beyond subregions and emphasizing development

Second, as a governance mechanism, regional integration will be more effective if attention is given to "going beyond subregions". The positive externality of cooperation will be enhanced by more effectively linking subregional cooperation activities – so that the integration is truly Asian. Given that levels of development and participation in the various subregional

²⁴ Joint Communiqué, Eighteenth ASEAN Labour Ministers' Meeting, 13-14 May 2004, Bandar Seri Begawan, Brunei Darussalam.

²⁵ SAARC Convention on Preventing and Combating Trafficking in Women and Children for Prostitution, Kathmandu, 2002.

cooperation activities vary widely among Asian countries, the developmental aspect of regional cooperation should be given priority.

Third, and importantly, in order to promote decent work, regional integration arrangements must be based on the principles of participation and democratic accountability. Social dialogue between representative organizations of workers and employers, and wider dialogue with other important social actors, would help to identify the issues of real concern to citizens of participating countries and would deepen regional cooperation in a meaningful way. The role of social dialogue is especially important in contexts where regional integration involves major upheavals for some social groups.

Regional organizations of workers and employers in Asia have been seeking to strengthen their participation in the regional integration platforms, but still have a long way to go on this. For example, while the ASEAN Confederation of Employers (ACE) has affiliate status with ASEAN, the ASEAN Trade Union Council (ATUC) has not yet formally affiliated, and affiliate status does not qualify them to participate as observers, for example, at the annual ASEAN Senior Labour Officials Meeting (SLOM).

Global Unions, launched in December 2000, bridges the gap between the structure of unions organized along national lines and the global production system organized across countries. This new structure comprises the ICFTU, the Global Union Federations (GUFs) which, as umbrella organizations, bring together a number of international industrial and occupational federations, and the OECD Trade Union Advisory Committee.

Recently, an increasing number of MNEs have signed International Framework Agreements (IFAs) with the Global Union Federations. The IFAs commit MNEs to respecting fundamental labour rights across their worldwide operations, oblige or at least encourage suppliers to do the same, and provide a key role for trade unions in the implementation and monitoring process.²⁶ Importantly, the IFAs establish GUFs as bargaining parties at the international level. Many of the 32 agreements concluded since 2000 concern MNEs with affiliates in Asia.

Another mechanism to promote labour standards up the value chain is through company initiatives based on corporate social responsibility (CSR). The term embraces a wide variety of initiatives that go beyond legal requirements.²⁷ Some are company codes of conduct intended to guide the behaviour of managers on employment issues and community involvement. Others involve national and international business federations, usually in particular sectors. Some of these initiatives are non-governmental in origin but invite the businesses to adhere to them. Some are purely declarative, whereas others include extensive measures for reporting and monitoring. Many of the measures refer to ILO standards as benchmarks for companies' treatment of their workers, in particular the core Conventions referred to in the ILO Declaration on Fundamental Principles and Rights at Work. What these initiatives have in common is the fact that they focus largely on foreign MNEs. The concepts underpinning CSR have long been an integral part of the activities of many Asian corporations. CSR initiatives are also increasingly dealing with suppliers and business partners and not just MNEs.

The World Commission on the Social Dimension of Globalization (WCSDG) recommends that regional integration needs not only to incorporate

Tripartism and social dialogue in regional integration

Social dialogue and labour standards in global production systems

Corporate social responsibility

Monitoring progress at the regional level

²⁶ N. Hammer: *International Framework Agreements: Global Union Federations and Value Chains*, draft paper produced for the International CRIMT Colloquium, HEC Montreal, 18-20 Nov. 2004.

²⁷ For a description of these various forms of corporate responsibility, see P. Utting: *Business responsibility for sustainable development*, Occasional Paper 2 (Geneva, United Nations Research Institute for Social Development, 2000).

social goals but also to have regular measurement and reporting of results: “Measurement is particularly useful at the regional level since progress, or lack of it, can create political pressures for coordinated action. A formal review process by regional organizations can help improve national policies”.²⁸ In this context, it is worth mentioning the ILO initiative to develop decent work indicators and the project for the Asia-Pacific region to build a coherent set of statistics (described in Volume I of this report).²⁹

²⁸ World Commission on the Social Dimension of Globalization: *A fair globalization: Creating opportunities for all* (Geneva, ILO, 2004), p. 74.

²⁹ See also ILO: *Labour and social trends in Asia and the Pacific, 2005*, background report for the 14th ARM (Bangkok, 2005).

5. The role of the ILO in making decent work an Asian goal

To focus discussion on what it will take to make decent work an Asian goal and at the same time achieve the MDGs, four key areas were highlighted. The points for discussion of these key areas in parallel sessions at the 14th Asian Regional Meeting (ARM) are proposed below. It is hoped that the discussion will help to identify what ILO constituents can do at national, regional and global levels, how tripartism and social dialogue processes would add value, and what the Office can contribute to making decent work an Asian goal.

What the ILO contributes is its decent work mandate. Achieving full employment and enterprise development, eradicating poverty, improving working conditions and living standards, providing social protection in times of adversity and insecurity, upholding the rights of working women and men – these issues are what the ILO is all about, and coincide with the key concerns of the countries and peoples of Asia.

The ILO's comparative advantage lies in its international labour standards and tripartite structure. The ILO's Constitution endows the Organization with an integrated economic and social mandate and the responsibility to evaluate economic policies in the light of their impact on social and labour policies. The ILO's tripartite composition of those who know best the world of work makes it the most appropriate forum for discussion, dialogue and, where possible, decisions affecting work and livelihoods.

The relevance of the ILO lies also in its knowledge base, advocacy and services. In Volume I, it was noted that, with the help of the ILO, some Asian countries have pioneered national plans of action for decent work. Of course, much still needs to be done at the national level. Various challenges remain, including those of putting productive employment at the heart of macroeconomic and social policies and of enhancing governance, notably by strengthening the capacities of the social partners and supporting the reform of labour market laws and institutions.

Taking the next step to “regionalize” the achievement of decent work, the ILO could assist in establishing and strengthening (sub)regional networks and cooperation for sharing information and good practices, developing joint action (involving trade unions and employers' organizations), establishing common databases, promoting mutual assistance among the

members of the network, etc. The areas where the ILO could add value to (sub)regional integration and cooperation include labour standards, employment policy, skills training and human resource development, youth employment, labour migration, and the development of statistical databases on decent work aspects. By working more closely with the various sub-regional groupings, the ILO could promote cross-regional sharing of information and experience and closer integration on an Asian level in areas relating to the world of work.

Points for discussion

(i) Competitiveness, productivity and jobs in a globalizing context

1. What will be the key drivers of competitiveness for Asian countries in the coming years? Will Asian countries be competing more against one another or will deepening production systems strengthen intraregional linkages and interdependence?

2. What is the emerging globalization trend of greatest concern to participants and why? Is it the ending of the Multifibre Agreement; the “second great wave of globalization” in terms of global sourcing of information technology-enabled services; protectionist reactions on the part of the West to global sourcing; the emerging giants China and India joining forces; the proliferation of bilateral trading agreements; or the volatility of oil prices?

3. In an increasingly competitive global context, how can countries best keep on the “high road” of implementing better labour standards, protecting rights at work and improving working conditions, rather than being dragged into a “race to the bottom”?

4. In the experience of participants, how can a virtuous circle of competitiveness, productivity and job creation best be achieved? What are the particular economic sectors that should be emphasized?

(ii) Youth employment: crucial in the life cycle for decent work

1. Is population ageing already a concern and if so, why?

2. Do participants have good examples of coherently tackling both child labour and youth employment problems?

3. In the experience of participants, do young people today have realistic wage and job reservations (expectations)? How are their aspirations influencing the transition from school to work?

4. Can participants report on gender-sensitive, innovative programmes that have enhanced employability and promoted sustained positive labour market outcomes for young people? What have been the factors for success?

5. How can the involvement of the social partners in the design and implementation of vocational education and training (VET) systems and active labour market policies (ALMPs) be improved, and how can the ILO help?

6. How can the ILO contribute to the implementation of the Manila Declaration on Strengthening Participation in Sustainable Youth Employment?

7. Do participants have practical suggestions for strengthening cooperation across Asian subregions on decent work for young people, and how can the ILO assist?

(iii) Labour migration: towards a regional framework

1. Do participants see intraregional labour migration growing, and, if so, what are the main drivers behind the growth? Will labour migration be the answer to the rapid ageing process in some countries?

2. In the experience of participants, is the Asian migration system efficient? Are temporary worker programmes temporary? If not, how can management of the migration system be improved, in particular to curb irregular migration and to protect vulnerable migrant workers, especially women and children, from trafficking?

3. In the experience of participants, do amnesties work for controlling irregular migration?

4. Can participants report on successful government-to-government agreements on cross-border movements of labour? What were the criteria for judging success?

5. Can participants report on successful measures to regulate recruitment and the proper use of employment contracts for migrant workers? How can the rights of migrant workers best be protected?

6. Is there any potential for a non-binding, rights-based Asian multi-lateral framework for labour migration? What would be realistic elements of such a framework that both sending and receiving countries would find beneficial?

7. How can the ILO's tripartite partners play a bigger role in designing labour migration policy? Are there structures that should be established to facilitate this?

(iv) Governance for making decent work an Asian goal

1. In the experience of participants, is tripartism working? What can be done to strengthen tripartism and social dialogue to contribute to competitiveness, growth and social cohesion?

2. In the experience of participants, what is the most serious governance deficit, and what can be done to improve governance?

3. Do participants have good examples of strengthening governance in global production systems? Is the "Cambodia model" exportable to other countries?

4. In the assessment of participants, would there be realistic scope for regional cooperation to achieve decent work in the following areas: research on labour market and employment implications; skills training and human resource development; youth employment; labour migration; and development of common statistical bases on employment-related issues? Which areas in particular, and on a subregional or regional basis? What could be the role of the Office?

5. How could the Office and the ILO constituents effectively give visibility to these regional cooperation efforts to make decent work an Asian goal?