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Labour market policies
in Asian countries:
Diversity and similarity among
Singapore, Malaysia,
the Republic of Korea and Japan

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Foreword

In this paper Dr. Takeshi Inagami of the University of Tokyo compares labour market policies in Japan, Singapore, Malaysia and the Republic of Korea. The hypothesis of the study is that the four countries have a number of structural and institutional features in common, especially concerning the role of enterprises in labour markets, and therefore some convergence in their labour market policies is to be expected. The study first reviews experience in the four countries in the light of their principal labour related problems. These include the contrast of employment with labour shortage (which, until very recently, had become a characteristic of the countries): the relative role of government and enterprises in resolving problems; the mix of active and passive labour market measures; policies towards foreign labour (a consequence of their own labour shortage); and the relation between labour market policies, incomes policies and industrial relations. The study finds that in Singapore, Malaysia and the Republic of Korea the main influences on labour market policy have been human resource development and official attitudes towards the trade unions. The countries all experienced rapid industrialization which aroused fears of excessive wage increases, which governments sought to moderate. A major consideration has been whether, at the time when labour shortage began to be felt, a consensual, "harmonious" system of industrial relations had been built up. In terms of human resource development, policies vary widely depending on whether enterprises spontaneously invest in training. Japan gives inducements to employers to train their workers, but the role of the state is far more pronounced in this regard in the other countries.

In summary Japan's dependence on enterprise strategies and market signals, and sound worker-employer linkages, is not, as yet, mirrored in the other countries.

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Introduction

Throughout this paper four questions are posed. First, what is the nature of the Japanese model of labour market policies, and how should one understand its characteristics and determining factors? Secondly, what are the labour market policies of countries such as the Republic of Korea, Singapore and Malaysia? Thirdly, what similarities and differences can be discerned between the labour market policies of these countries and those of Japan? Fourthly, what are the implications of such an international comparison of labour market policies?

In this introduction, the analytical framework for an international comparison of labour market policies is briefly outlined. We then consider six points. First, what are the objectives of labour market policies, and in particular does the basic problem tend to be one of unemployment or labour shortage? Second, how much weight is given to labour market issues compared with other policy areas? Third, what are the respective roles attached by policies to the market, to the government and to firms in the resolution of labour market problems? Fourth, are labour market policies active or passive? Fifth, is there a foreign model which provides an important benchmark in planning and executing labour market policies? Sixth, what is the relationship between labour market policies and other policies such as incomes policy and industrial relations policy? The answers to these questions involve identifying the distinguishing characteristics, in each country, of how the decision-making system is constituted and how different interest groups are represented. The nature and evolution of each country's labour market policies may be analysed in terms of the different answers to the questions posed.

In chapter 1 we explore the Japanese model of labour market policy by examining the nature of the Employment Policy Law (1966) enacted in the midst of high economic growth and the Employment Insurance Law (1974), both of which do mark the birth of Japanese model in labour market policy, after the brief description of unemployment problem and measures against it after the defeat. Chapters 2, 3 and 4 focus in detail on the labour market policy profiles of Singapore, Malaysia and the Republic of Korea respectively. Chapter 5 draws some conclusions from a comparison of these countries' labour market policies.

Theoretical framework

In order to improve the labour market efficiency, these three decades, governments have been exerting themselves to mitigate or solve labour market problems by mobilising a wide variety of policy measures or programmes. National differences are strikingly apparent in the means which different countries have chosen. In addition to differences between one country and another, different ideological approaches have also played a role, notably the so-called liberal, neo-corporatist, and neo-liberal tendencies. These differences are clear-cut not only in Europe but also in the Asian societies studied in this paper.

Meanwhile, what do we mean by labour market policy? There is no single answer. It can be defined tentatively for our purpose as "a system of policies, developed by governments in order to solve or diminish basic labour market problems, dealing with such matters as human resource development, vocational training, job placement, income insurance for the unemployed, and policies for foreign workers".

From this definition it follows, first, that the objective of labour market policies is the relief or solution of labour market problems. Of course, as will become clear later, the definition of what constitutes a labour market problem varies even within the same country at different times. At one time and in one country unemployment may be seen as an important policy problem, whereas in another country or at another time dealing with a labour shortage may be a policy priority. Indeed there are cases where both problems are seen to exist simultaneously. In any case, in conducting an international comparison of labour market policies, it is essential to consider what is regarded as constituting a labour market problem.

A second implication of the definition is the need to compare the relative weight attached to labour market problems and their solution, with other policy areas. For example, a high level of unemployment is sure to be given high priority in a society which is dedicated to achieving full employment. But other policy judgements can be made, such as the decision by the Thatcher government in the 1980s to accept high unemployment as part of the price of suppressing inflation. One may thus compare the relative priority of policy objectives: how important is it to solve labour market problems? Answers to this question vary greatly according to ideology.

Thirdly, labour market policies aim to eliminate or relieve labour market problems, but it must be asked to what extent, and in what manner, is this entrusted to firms and to the market? In some cases the government has a major direct role in human resource formation, whereas in other cases labour market policies are chosen which are heavily dependent on the actions of firms and on market behaviour.

Fourthly, are labour market policies active or passive? Various views are taken of the active labour market policy programmes which can be traced to the 1960s (Schaemann 1995; Fay 1996). Before the first oil crisis the target of these policies was full employment. Active Manpower Policies had aimed at responding to rapidly growing demand for labour by eliminating labour market bottlenecks (OECD 1964). However the focus shifted subsequently to the needs of the unemployed, and the content of such programmes changed accordingly, with attention shifting to measures like early retirement to restrain labour supply, and attempts to stimulate the demand for labour. However, with the growth in the numbers of the long-term unemployed in the 1980s it became clear that labour supply restraint measures such as early retirement were inappropriate. Strong interest has been drawn to skill development which equips workers with skills that correspond to labour market needs (OECD 1993:39-40). In addition, there are many cases where vocational training is classified as active labour market policy but in reality has more of the character of income security. Thus there is not only a residual ambiguity in the content of active labour market policy, but also a close relationship between the substance of active and passive labour market policies.

Nonetheless, according to OECD (1990:Annex), the amount, in relative terms, of public spending on the following five items of labour market costs can give an indication of the activeness of labour market policy, i.e., (1) public provided job placement and advice, (2) general vocational training, (3) training for young people, (4) wage subsidies for job preservation, payments to promote employment by the unemployed people, and direct employment by national or local government, (5) promotion of employment of handicapped people. However, the level of activeness of labour market policies, and the extent to which they perform efficiently, are entirely separate questions. It may well be that the labour market is highly efficient where public job placement and advice or vocational training are entrusted to the market or deregulated and the firms' roles in these areas are significant, or where direct employment by national or local governments is of little importance.

Fifthly, touching on the concerns of this report, the question arises whether one country may imitate and seek to transplant another country's labour market policies. As will be shown, instances of the transplantation of part of another country's labour market policy, whatever the reason, do indeed exist.

Sixthly, it is necessary to consider the relationship between labour market policies and related policies such as trade union and industrial relations policy or wages policy, and more specifically the characteristics of the beneficiaries and the decision-making system in the labour market policy formation process. For example, labour shortage may often be seen as a serious problem in circumstances where sharp wage rises are also viewed as a cause for concern, since the latter problem can threaten the international competitiveness of a country's manufacturing industry. This in turn focuses attention on policies towards trade unions and industrial relations and on incomes policy and wage control policies. Examples of this can be found in the Republic of Korea Government guidelines on wage rises, Singapore's neo-corporatist National Wages Council, or the major changes which occurred in the second half of the 1980s in policies on trade unions and industrial relations in the Republic of Korea, Taiwan and China.

In order to understand the labour market policy-making process and its significance properly, it is necessary to pay attention to the relationship between these various connected strands of policy, which collectively embody a national model of political economy.

To sum up, in conducting an international comparison of labour market policy one must ask: first, what is considered to constitute a labour market problem? Secondly, how important is it to solve that problem? Thirdly, what is the importance attached to firms and to the market in labour market policy? Fourthly, is labour market policy active or passive? Fifthly, is there an attempt to transplant another policy model? Sixthly, what are the characteristics of the decision-making system, and what kind of representation is there for the interest groups affected by labour market policy and policy towards trade unions and industrial relations? These six questions provide an analytical framework for the comparison.

1. The Japanese labour market policy model

1.1 The origins of the model

In Japan, up to now the expression “labour market policy” has hardly been used either by the Ministry of Labour or by researchers. However the expression “employment policies” is used with almost the similar meaning. To anticipate one conclusion, the expression employment policy came into existence at the same time as the birth of the Japanese labour market policy model. The Employment Policy Law was passed at the height of the era of rapid economic growth, in 1966.

Before seeking to define the Japanese model, however, it will be helpful to look briefly at the origins and changes of these labour market policies(cf., Sugeno 1997:62-4) .

Post-war turmoil and the labour market

At the end of the Second World War Japan had lost one-quarter of its wealth and one-third of its production facilities compared with the pre-war level (1933-35= 100). For several years after the war the Japanese economy was in a state of utter disarray. In consequence, during the three years 1945-48 the wholesale price index rose by about two thousand per cent and in the two years 1947-48 the consumer price index roughly tripled. The living standard of workers fell drastically. Compared with the pre-war level the real wages of manufacturing workers were 23.3 in 1947, 35.1 in 1948, and 45.6 in 1949 (cf., Ministry of Labour, Economic History of Post-war Employment: Data supplement).

The government put all its efforts into simultaneously fighting inflation and raising basic productive capacity. In addition to price and wage controls, in 1949 the Dodge Line (rigidly balanced budget, cuts in government spending, and fixed exchange rate of 360 Yen to the Dollar) eventually brought the extreme inflation of the immediate post-war period under control. To raise productive capacity, the keisha (“sloping”) resource allocation policy proposed by Arisawa Hiromi was introduced. This was an approach to industrial recovery which concentrated on the coal and steel industries, aiming thereby to stimulate other industries indirectly. As a consequence of demand induced by the Korean War at the start of the 1950s, the Japanese economy began to recover from the deflationary effects of the Dodge Line. Consequently, real manufacturing wages, real per capita GNP, and labour productivity of manufacturing returned to pre-war levels in 1952, 1953 and 1956 respectively. These developments led the Economic Planning Agency to declare in its 1956 Economic White Paper that “The ‘Post-war period’ is over”.

As for the labour market, during the post-war confusion demand for labour fell dramatically (Endo 1976:53f.). On the other hand, labour supply was greatly increased by the entry into the labour market of a total of about 13 million demobilised military personnel, laid-off workers in military supply businesses which had closed, and returning refugees from overseas. Superficially demand for labour in public job security offices exceeded supply but in reality, “extremely low real wages and segmented labour markets meant that there was a high level of disguised unemployment in agriculture and in petty employment” (Seki

1981:387-8). In due course, in the midst of the rapid economic recovery, against this background of excess supply of labour, the restoration of a so-called dual structure¹, which had been growing in the pre-war period became clearly apparent in the second half of the 1950s. During this period the commerce and service sectors, and in manufacturing the small and medium enterprises, which had a high capacity to absorb labour, played a central role. These sectors of the economy met the growth in demand for finance and services by absorbing excess labour supply, with in consequence low wages. However in the case of large manufacturing firms, as distinct from small and medium firms, plant was renewed and new technologies introduced (for example, in the first coal and steel rationalisation plan, 1951-1955). The pre-war system of skill training was revived and using it large manufacturers were conspicuously successful in recruiting able school-leavers. As a result, a widening gap developed, in productivity and wages and other conditions of employment, not only between large and smaller manufacturers but also between manufacturing on the one hand and agriculture and commerce on the other. It proved impossible to alleviate or eliminate this dual structure during the high growth period from 1955-72. During this period the average rate of real GNP growth was 9.4 per cent.

In this period, therefore, one can observe on the one hand the restoration of the dual structure and on the other hand the return, particularly in large manufacturing firms, of Japanese employment practices dating back to the 1920s (Endo, 1976:58-61). One of the characteristics of these employment practices is lifetime employment. Generally speaking, this increases the labour demand for school-leavers but does not lead to active recruitment of older workers in mid-career. Thus the return of these Japanese employment practices in the large manufacturing firms did not create a growth in demand for older workers of whom there was an excess supply, and did little to alleviate their unemployment problems. The structural gap in employment opportunities for older workers which is caused by Japanese employment practices is a troublesome problem, which has consistently been the subject of policy concern, continuing to elude resolution.

Anti-unemployment measures during the economic recovery

It is easy to appreciate that labour market policy in the period of economic recovery (1945-54) focussed on anti-unemployment measures. In 1947 the Ministry of Labour was established and the pre-war Employment Placement Law² was replaced by the Employment Security Law, and at the same time the Unemployment Insurance Law (1947) set up a system of unemployment insurance, and which is a major development when one considers that before the war there was no such system. In addition, in 1949 the Urgent Unemployment Measures Law was enacted.

¹ The expression “dual structure” was used to describe the major difference in labour productivity, wages and conditions of employment between firms of different size and in different industrial sectors. It also, however, implies the development of a structural difference reflecting the relationship between sub-contracting firms and their customers. Another and quite different word, “dual economy” was used to specify that sense. The expression dual structure was first used by Arisawa Hiromi, the advocate of the keisha or “sloping” resource allocation policy.

² In response to the unemployment problems caused by the recession following the First World War and the subsequent Great Kanto Earthquake (1923) the government instituted unemployment relief projects and began slightly earlier, on the basis of the Employment Placement Law passed in 1921, to assist municipal authorities in setting up free job placement services.

Nonetheless, in the early 1920s the private, fee-paying job placement businesses assumed a greater importance than the free public facilities. These relative positions were reversed in the early 1930s. To be precise, in 1925 there were 187 free public job placement offices which successfully placed 222,563 applicants and in the same year 4,003 private businesses placed 624,884 applicants (in both cases excluding day labourers). In 1932 on the other hand the figures for public facilities was 462 offices and 540,725 applicants placed, and for private facilities 1,916 businesses and 535,801 placements. See Nakajima 1988:126-7.

This was intended to absorb the growing numbers of unemployed workers directly into the government's unemployment measures programme agency. At the time "these three laws which were passed under firm instructions from GHQ" were known as "the three employment security laws" (Nakajima 1988:171).

Of these three laws, the Employment Security Law had the effect of strictly excluding from the business of supplying workers the private agencies which had had a very large role in pre-war job placement. That is to say, GHQ, which was concerned to democratise Japan, attached great importance to the development of "healthy trade unions" and "elimination of undemocratic labour practices", and strove so far as possible to prohibit the old system with its danger of exploitation by middlemen and forced labour. In consequence, all worker supply organisations other than trade unions were prohibited (Article 45)³. Moreover, an amendment to this law in 1949 established a system of collaboration between the public Employment Security Offices and schools, and permitted schools to operate free job placement services on similar lines to pre-war models.

The Urgent Unemployment Measures Law embodied a system similar to the measures taken to cope with large-scale unemployment which arose in the first half of the 1920s. In 1925 the government established winter unemployment relief offices in six major cities. The background to this was the government's anxiety in the face of "social unrest" fermented by rising prices, the influx of impoverished farmers into the cities, and large-scale lay-offs and the struggle caused by resistance to these lay-offs.⁴ These unemployment relief programmes⁵ arranged employment for unemployed workers introduced by employment placement offices, at daily wages which were lower than the local norm, mainly in public works such as road-making, water supply and drainage works, and the construction of bridges or re-building of embankments. The unemployment relief measures were in practice a means for the government to provide work opportunities for day labourers.

The content of the post-war anti-unemployment measures closely resembled these pre-war unemployment relief provisions. Direct employment by the government of day labourers, their placement by employment security offices primarily in public works projects at rates of pay lower than the locally prevailing norm: in all these respects the arrangements were the same as the pre-war measures. In the context of the severe post-war economic conditions, unemployed job-seekers were able at least to make a living, if not to find secure employment, by means of the day-labour-work found for them by the public security offices. However, the scale of the programme was insufficient to meet the demand for work. This led to a movement directed at the public employment security offices and related bodies, involving mass demonstrations, petitions, sit-down strikes and hunger strikes, known as the "'Give us jobs' struggle" (Nakajima 1988: 178). The numbers of those seeking work as day labourers who were registered with the employment security offices rose from an average of 160,000 in 1949

³ 38 years later, in 1985, when the Dispatched Labour Law was passed, it also prohibited this kind of labour supply business (Clause 44).

⁴ In 1925, in addition to the unemployment relief projects, the "Private Job Placement Business Control Regulations" were enacted, as was the Public Security Preservation Law. Hosoi Wakizo's *Tragedy of Factory Girls* was also published in 1925. There was a mutual relationship between these events.

⁵ The number of those unemployed, for whom the unemployment relief projects were set up, rose to 965,000 in 1925, and "For someone who was unemployed and could not find work, the unemployment relief programme was like a bright ray of sunlight". When the unemployment problem deteriorated further as a result of the onset of the great depression in 1929, the programme was expanded to include other areas outside the six major cities and to extend to low-paid workers as well as to the unemployed. As a result other kinds of work, apart from public engineering works, came to be included, such as assigned clerical work on behalf of ministries or in assisting public bodies with data collection (Nakajima 1988:100-1, 109-10).

to 410,000 in 1950. It is thought that “About 70 per cent of those seeking such work were found employment through the anti-unemployment provisions” (Endo 1976: 65). In this sense these measures made a major contribution to easing the serious unemployment situation.

The impact of high economic growth

As seen above, by the mid-1950s the Japanese economy had returned to pre-war levels. Workplace conflict, and the struggle embodied in the call to defeat the system of enterprise unions, declined; and the ideology of class struggle was dealt a fatal blow by the failure of the Mitsui Miike dispute. The background to this was the rise of a mass consumer society symbolised by the expression “Three sacred treasures” (black and white television, electric washing machine, and electric refrigerator). Society became increasingly more urbanised and educational qualifications assumed growing importance.

The leadership of the “spring offensive” in wages bargaining which began in earnest in 1956, was at first centred on the private railways and public employees unions, but shifted to the metalworking sector such as steel, shipbuilding, electric machinery and car industries (in other words from the protected or shelter to the competitive sectors) and in due course the expression JC (IMF-JC) Spring Offensive came into general use (the IMF-JC being set up in 1964). In 1964, eight years after the Economic White Paper had declared that “The Post-war period is over”, Japan in the course of one year joined the OECD, acceded to Article 8 of the IMF, held the Tokyo Olympics, opened the Shinkansen high-speed train line, and experienced a labour shortage of young workers. The Toyota production method had already come into use. Japan had become a major industrial nation, and there was pressure for liberalisation of trade and capital, and recognition of the need to move to an open economy: the 1964 Economic White Paper was entitled “The Japanese economy in an open economic system”. This spurred the reorganisation or modernisation of sub-contracting in assembly manufacturing industries. It was also this period which saw the development, in response to capital liberalisation, of the system of interlocking shareholdings among major firms which continues to underlie the present system of corporate governance.

This period was also marked, in parallel with development of the heavy and chemical industries, the changes of industrial structure, employment structure, industrial relations, and unprecedented technological innovation (this term was first used in the 1956 Economic White Paper mentioned above), as well as the rise of the consumer society with the energy revolution symbolised by the decline of the coal industry and the setting up of large oil industry conglomerates.

Changes in the labour market may be summarised as follows: first, talk of excess labour supply and disguised unemployment died away and was replaced by concern with labour shortages, specifically of young workers and technically skilled workers. Economic growth meant that the balance of supply and demand for labour was much improved, the turning point coming in 1964 when, even if one excludes new school-leavers, the number of those newly seeking work was exceeded by new offers of work. The overall unemployment rate also improved continuously from 2.5 per cent in 1955 to 1.1 per cent in 1964. This was an epoch-making development when one reflects that, as already implied “Except for the war years Japan had always worried excessively about overpopulation and had devoted itself to dealing with unemployment” (Nakajima 1988: 221).

Secondly, high economic growth led to a gradual decline in the dual structure of employment, and raised the possibility that it might disappear. Thirdly, despite this there was

a considerable imbalance in the relationship between labour supply and demand according to age, industrial sector, region, and types of work. Fourthly, related to this, there was a large rise in the urban population, as a result for example of the decline of the coal industry, the new growth in demand for labour as a consequence of the growth of heavy chemicals industries in urban centres, and the movement of the work force from farming villages to the cities. Fifthly, the changing industrial structure led to a substantial increase in the rate of the employed to the total, from 41 per cent in 1955 to 59 per cent in 1960, in other words an increase of nearly 20 per cent within 10 years. Sixthly, there was a striking fall in the relative importance of the pool of excess labour supply provided by primary industries halving from 48.3 per cent in 1959 to 24.6 per cent in 1964, and a similar rise in the numbers of those employed in the secondary and tertiary sectors (cf., Endo 1976:68-74; Seki 1986:396-404; Koshiro and Rengoso eds. 1995:306f.).

The Vocational Training Law and measures for former colliery employees

What impact did these changes in industrial structure have on the government's labour market policies? Two aspects of policy in the latter half of the 1950s command attention. One is the measures taken to deal with those made unemployed as a result of the decline in the coal industry. These included the Coal Industry Rationalisation Temporary Measures Law (1955) and the Former Colliery Workers Special Measures Law (1959). In order to help former miners to find work, they were given detailed guidance and a programme of job placement over a wide area and assistance with moving was implemented.⁶ Many miners left their home towns and moved to the Tokyo-Yokohama and Kyoto-Osaka-Kobe areas where they found work in the manufacturing and construction industries. These elaborate procedures and their results "deserve to have a large book devoted to them" in the annals of employment security administration (Nakajima 1988:219). The distribution of older workers between regions and industries was re-allocated in the context of the changing industrial structure.

In 1958, the Vocational Training Law was enacted. This provided for: (1) public provision of vocational training; (2) training at the workplace; and (3) skill certification. Economic growth and the changing industrial structure had led not only to a shortage of younger workers, but also to a qualitative change in the kind of workforce which was required. As the shortage of skilled workers became apparent the need arose to raise skill levels in the workforce. The government was faced with the need to replace the existing system of job instruction provided by the employment security administration (public vocational training) and technical training conducted by the standards administration (training within enterprises) by something more in tune with the training needs of workers and industry (Sumiya and Koga eds. 1978:81f). Of the above three elements of the new law, (1) namely public vocational training, derived from the wartime vocational training enterprises and facilities and the "job instruction" policies under the Labour Standards Law (1947), and in reality tended to be an unemployment relief measure focussing on school-leavers without jobs and other unemployed workers (Sumiya and Koga eds., 1978:25-8; Japanese Vocational Training Association 1971:322f.). The second

⁶ With reference to the movement of the labour force between regions, the "group job-finding" phenomenon should be mentioned. This involved a close relationship between, on the one hand, the junior high schools and public employment security offices in the sending regions, and on the other the local authorities in the regions to which the groups went. It began in the mid-1950s when the labour shortage problem started to bite, and reached its peak in 1964 when 78,400 workers were recruited in this way. They were known as "golden eggs".

set of provisions, (2) on training within enterprises, was based on the regulations for the training of skilled workers under the Labour Standards Law (1947).⁷ However, these regulations, although they purportedly dealt with vocational training, in fact were aimed at eliminating “the evils of the apprenticeship system” and “sweated labour”, and in that sense were rather “backward-looking”. Therefore, despite the use of words such as public vocational training and training within enterprises, the actual content of these provisions was remote from the new training needs and qualitative and quantitative skilled labour shortages which economic growth had brought about⁸.

The enactment of the Vocational Training Law was intended to bring about, in tune with requirements of the new era, a major overhaul of the obsolescent public vocational training and “backward-looking” regulations on vocational training within enterprises, and to create an organic synthesis with the newly-established skill certification system. It also meant that the administration of vocational training was made independent of labour standards and employment security administration. At the same time as this Law was passed the Vocational Training Division was set up within the Employment Security Division, and three years later, in 1961, it was given the status of a separate Bureau, the Vocational Training Bureau (Nakajima 1988:241).

From anti-unemployment measures to active employment policy

As described above, the labour market policies of the economic recovery period were fundamentally aimed at unemployment, against the background of enormous disguised unemployment and excess labour supply⁹. This is symbolised by the “three employment security laws” referred to above. At that time unemployment was the greatest problem of labour market policy, and the alleviation or elimination of unemployment was a priority objective, along with economic and industrial recovery, so much so that the government resorted to direct employment of those seeking work.

In order to understand the government’s labour market policies at the time it is necessary to take account of the perceived need to prohibit and suppress traditional pre-war employment practices such as “sweated labour” under cover of training within an enterprise or job placement by worker supply businesses. The influence of GHQ had a lot to do with this.

However, policies aimed at unemployment and the suppression of old customs were not suited to cope with the new needs which arose from the striking economic growth which followed. The fundamental employment problem shifted gradually from being one of unemployment to one of labour shortage, and in parallel with this new thinking on employment

⁷ The reason for including regulations on training skilled workers in the Labour Standards Law was that, as stated in clause 69 of the law, it was intended to prevent the widespread pre-war practice whereby sweated labour was disguised as apprenticeship or skill training.

⁸ The number of firms, principally large ones, which adopted skill training on the lines of these regulations grew slowly during the 1950s, but did not exceed an average of 20-30 a year (Sumitani and Koga eds., 1978:45f.). Of course during the 1950s major firms began of their own accord to re-establish their own skill training systems. On this point, see Sumitani and Koga eds. 1978:45-53 and 91-135.

⁹ The 1959 report of the Council on Employment (known as the “Full Employment Report”) stated that “as an essential prior step to achieving full employment, it is necessary that policy should be directed at achieving an employment situation in which modern employment policies can be effectively developed”. The report was concerned with addressing the problems of the reconstruction period of “hidden unemployment” and “incomplete job-finding” (Endo 1975:4-5). The same report - interestingly from the point of view of this study - described these problems as “phenomena common to most countries which are very backward in their level of industrialisation”. In fact, thanks to subsequent continuing economic growth, the report’s stated policy objective was realised in a short space of time (Endo 1975:7).

policy became increasingly influential during the latter part of the 1950s, symbolised by the appearance of the expression “full employment”. These new currents of thought were exemplified by such developments as The Five-year Economic Autonomy Plan “for the first time presenting full employment as the target of economic policy” (1955), the abolition of the Council on Unemployment Policy (1958), the establishment of the Employment Promotion Corporation (1961), the drastic revision of the Urgent Anti-Unemployment Measures Law and amendment of the Employment Security Law (1963). The objective of revision of the Urgent Anti-Unemployment Measures Law was to rectify the situation created by the old law whereby older workers were finding employment in unemployment relief projects as day labourers on a “regularised” and “established” basis, and instead to seek actively to promote their re-employment in the private sector, namely a shift to active labour market policy. There was vigorous resistance to this move by the trade unions affected, notably Sohyo and Zennichi Jiro, which opposed the dropping of the former unemployment relief system.

This fundamental change in policy thinking can be described as one “from unemployment policy to employment policy” (Takanashi 1982:37f.). The new approach was embodied in the Employment Policy Law (1966), “an epoch-making event in the history of Japanese employment policy”.

What was epoch-making about this law? First, it was the first time that the achievement of full employment was stated by law to be a government objective, and it thereby gave rise to the adoption of the First Employment Measures Basic Plan (1967-1971). (The successor to this plan, the Eighth Employment Measures Basic Plan is currently in effect). Secondly, in place of the position subordinate to economic and industrial policy which labour market policy concerned solely with unemployment had come to assume, the new emphasis on full employment enabled labour market policy to make positive demands on economic and industrial policy by giving it a rationale of its own, and raised the prospect of aiming for a co-ordinated policy approach.¹⁰ Thirdly, it brought the elements of labour market policy into a coherent whole, stressing the need to correct the various imbalances between labour supply and demand; and, in addition to the Employment Measures Plan, it strengthened job placement provisions, introduced a system of transitional subsidies for job changing, secured training arrangements for technically skilled workers, and promoted employment for older and physically handicapped workers.

To sum up, the heart of the Employment Policy Law lay in the setting as goals of government policy the achievement of full employment, the recognition of a specific rationale for labour market policy and the co-ordination of labour market policy with economic and industrial policy, and the correction of imbalances in labour supply and demand, together with the concomitant systematic planning of labour market policy; and it can thus be regarded as “the basic law on employment policy” (Nakajima 1988:226).

Incidentally, the Employment Policy Law may be regarded as a Japanese version of ILO active employment promotion policy or OECD active labour policy. Indeed the ILO agreement on employment policy (1964) and recommendation on employment policy (No. 122), and the OECD board of directors’ recommendation on labour policy to promote economic growth (1964) were important factors in its enactment (Endo 1975:9;Endo 1976:85).

Japan’s subsequent labour market policy progressed largely along the route which had been paved by the Employment Policy Law. As stated above, the law incorporated the

¹⁰ This co-ordination with economic and industrial policy involved a contribution to economic growth and price stability by promoting mobility between regions and between types of work, and by fostering skill development and enhancement.

expression active labour market policy, and it was this which gave the Japanese model of labour market policy the form it has come to take (Sugeno 1997:69f.) .

Some illustrations of subsequent measures and legislation along these lines, notably including the Employment Security Law (1974) and the Revised Vocational Training Law (1978), as well as many others, such as: the establishment of the “human resource bank” (1967) which provides a public job placement service for managerial and technical workers, offering real-time wide-area (starting with Tokyo and Osaka 1969) job placement to extend job security functions and makes possible individual search with the aid of a display monitor; the setting up of a job-change subsidy system to improve the balance of supply and demand for older and handicapped workers by supporting them in moving to new kinds of work (1969); the radical revision of the old Vocational Training Law.¹¹ and the adoption of the First Basic Plan on Vocational Training (1971); the establishment of the Vocational Research Institute being a precursor of the present the Japan Institute of Labour (1969); and the Older Workers Employment Promotion Special Measures Law (1969), the forerunner of the later Older Workers Employment Security Law (1986), the Worker Capital Formation Law (1971) and other legislation.

From the Unemployment Insurance Law to the Employment Insurance Law

In emphasising the importance of the Employment Policy Law, one should not overlook the comparable “historic” importance of the Employment Insurance Law (1974), which “aimed to implement the principle (i.e. of achieving full employment) enunciated by the Employment Security Law” (Endo 1975:13). It replaced the Unemployment Security Law, embodying a new set of ideas.

What was “historic” about this law was that it established, in addition to unemployment benefit payments, three programmes known collectively as “the three employment insurance programmes”, namely the employment security programme, the skill development programme, and the employment welfare programme. The important thing about these programmes¹² was that the funds necessary to implement them were separate from the unemployment benefit funds and were derived entirely from employers’ contributions (3.5/1000 of total pay). In other words, the Employment Insurance Law, by “making it possible for employment policy to have its own funding,” (Endo 1975:13) was in that sense indeed historic.

The first of the new programmes, the employment security programme, had at its core measures giving support to employers to promote the employment of older workers and the raising of the age at which they were required to retire, and the creation, by providing for change of workplace and other steps, of new employment subject to regional and seasonal variations as well as age considerations. The second programme, the skill development programme, supported and subsidised employers and employers’ organisations, as well as local governments, for employee training in the private and public sectors and for skill certification. This marked the first systematic provision to employees of paid leave for training purposes. The third programme, the employment welfare programme, gave assistance to employers for

¹¹ Ostensibly this radical revision anticipated the large-scale revision of the Vocational Training Law in 1978. However in reality the overall policy system lost most of its importance. This was because at the time, in 1969, attention was centred on “coping with the skilled worker shortage”, principally by “enhancement of vocational training for new school-leavers”. On this point, see Iwasaki (1977:157).

¹² In 1977, when the Employment Security Fund system was set up, the three programmes became four. This Fund provides finances for the employment security programmes, under a system whereby in normal circumstances the funds gradually accumulates. See Okabe (1989:84).

setting up or expanding provisions for employee welfare, and in the establishment and administration of accommodation for workers who had been obliged to change their place of residence in order to start work. All of these measures can fairly be called active labour market policy.

These three programmes, for employment security, skill development, and welfare, were all directed at improving job opportunities and working conditions by assistance to employers. Precisely for this reason the necessary funds for the programmes could all be taken from employers' payments of employment insurance.

There are several points worth noting about the influence on subsequent labour market policy of the first of the three programmes, the employment security programme. It encompassed systems of subsidy and support payments for the extension of the retiring age, for employment of older workers, for regional employment promotion, for re-employment of former workers in specified industries, for child-care leave, and so on. It was aimed at providing means, acting through employers, to solve the problems which the Employment Policy Law had stressed of imbalance in labour supply and demand according to age, region and industry. The retiring age extension subsidy system was directed at small and medium enterprises, and the older worker employment subsidy was directed at such enterprises which provided regular jobs for workers of 55 or over who had been placed through the public employment security offices. Both systems thus were focussed on small and medium enterprises. Thus, in addition to the unemployment insurance, job placement, unemployment relief projects and vocational training, a new item - job creation - had been added to the tool-kit of labour market policies.

Some explanation is needed of the employment adjustment steps taken in response to the first oil crisis (cf., Sugeno 1997:49f.) , in particular the system of employment adjustment payments, and the relationship between these steps and Japanese employment practices. At that time there was already a strong preference for responding to economic fluctuations arising from changing business conditions or the rapid alterations in the world economic situation by eschewing immediate lay-offs of regular employees, except as a last resort, in favour of reductions in overtime, re-allocation of workers within enterprises, suspending or reducing the hiring numbers of new school-leavers or workers in mid-career, and reducing dependence on sub-contractors, and - only if these measures proved insufficient - of voluntary redundancies, particularly of older workers (and even in these latter cases substantially increased leaving payments and assistance in finding new employment was regarded as part of a firm's social responsibility). The system of employment adjustment payments provided a means whereby, in accordance with Japanese employment adjustment practices, even if business conditions meant that an employee had to be temporarily laid off, "by reducing the burden on firms of paying closure allowances, steps could be taken to prevent unemployment before the stage was reached where the workforce had to be cut" (Endo 1975:70). Not only during the severe recession induced by the oil crisis, but also continuing to the present day, in periods of recession firms are eligible, with the authorisation of the Ministry of Labour to receive employment adjustment payments (two-thirds of closure allowances in the case of small and medium firms and one-half in the case of large firms). These payments are made to firms which are considered to be making efforts to sustain employment. In reality, in almost all such cases, although nominally laid off, employees continue to go to work for training and other purposes.

This system of employment adjustment payments, like the system for promoting extension of retiring age, can be regarded as a deliberate policy measure by the government to support the mature stage of Japanese employment practices by maintaining, so far as possible,

opportunities for full-time employment. It is noteworthy that this is a major policy programme which directly involves firms' employment practices and internal labour markets. More generally, the three programmes set up under the Employment Insurance Law have come to mean that the government's labour market policies, in the form of unemployment prevention and employment creation, are directly and intimately related to the character of firms' personnel management. As far as the implications for Japanese employment practices are concerned, this relationship involves policies aimed at supporting and promoting long-term stable employment by government support and inducements (to put it the other way round, it would be a matter of concern if older workers' future employment prospects were left entirely up to the free will of firms). This may be regarded as having come about as a result of, on the one hand, the specification of the achievement of full employment as a government objective by the Employment Policy Law and the continuation of the Employment Measures Basic Plan; and on the other hand the difficulty (against the background of Japanese employment practices) which older workers can encounter in finding work and thereby contributing to that objective, and the possibility of large-scale employment adjustment as a result of economic downturns which can lead ultimately to lay-offs and voluntary redundancies, particularly of older workers. These factors mean that the government is obliged to take concrete steps to preserve and expand older workers' employment opportunities, including the restraint of unemployment in firms' employment adjustment activities and the promotion of job creation.¹³

The third of the employment insurance programmes, the skill development programme, incorporates the following four components: first, support for public training facilities, and for enhancement of training content, aimed at life-time education (initial training, further training, skill re-development training, and so on); second, subsidies to employers of workers undergoing in-service training (aimed mainly at small and medium enterprises and including subsidies for certification training, for vocational training maintenance, and to support paid leave for education or training purposes by employees); third, payment for classes and training for job-seekers and workers facing a change of job; and fourth, funds to support equipment and administrative organisations for skill certification systems.

In addition, a revised Vocational Training Law was enacted in 1978. The essence of the revision was fourfold: a shift in the focus of the training system from one based only on public provision to one which assimilated both private and public elements; a move from legally specification of training to one which embodied greater variety; a replacement of training based on narrow definitions of skills by technically defined job categories to a broader concept of skill development and enhancement; and the promotion of lifetime education and training rather than basic vocational training centred on school leavers (Iwasaki 1979: 158-65). The thinking behind this substantial revision reflected a recognition that "in reality the training of technically skilled workers had come to be conducted in the framework of 'human resource development directly provided by employers in the workplace', separately from the vocational training programmes which had been planned", and conversely that "the content of publicly provided vocational training tended to lag behind the skill and knowledge requirements of industry". Moreover, "essentially, since it is desirable that the contents and methods of training should be ones which management and workforce consider appropriate in responding to employment

¹³ One means of maintaining or increasing employment opportunities for older workers is the promotion of long-term secure employment (by policy support for Japanese employment practices). However this does not imply a rejection of policies favouring mobility and creating an environment in which it is easy for older workers to move (for example in the case of long-term secure employment, the Older Workers Employment Promotion Payment system). Policy is aimed at achieving full employment, both by encouraging stability in the form of long-term secure employment, and by promoting mobility to eliminate structural imbalances of supply and demand.

trends, there were not many industries or types of work where policy intervention was necessary". Therefore it was judged that "What was primarily called for was an expansion in the provision of training by private and other employers". In addition, the Ministry of Labour came to the view that "in preparing for the future emergence of a service-oriented economy, there is less need to plan for vocational skill development and enhancement of technical workers than to provide for the skill requirements of workers who will join the tertiary sector, which accounts for a large proportion of the workforce " (Iwasaki *ibid.*; Endo 1975:132).

Summary

We have briefly re-traced the course of labour market policy from the post-war period to the Employment Policy Law and the Employment Insurance Law which put its intentions into effect. It may be helpful at this point to recapitulate, incorporating a few economic generalisations.

(1) Post-war Japan's labour market policies began to develop with the three employment security laws, which were enacted under the harsh conditions of post-war economic collapse, enormous demand for employment, excess labour supply, and huge hidden unemployment. Beginning with the passage in 1947 of the Unemployment Insurance Law and the Employment Security Law, and in the same year the establishment of the Ministry of Labour and the enactment of the Labour Standards Law, the process was continued with Urgent Unemployment Measures Law in 1949. These three employment security laws are signs of the seriousness with which unemployment was viewed and the urgency of the problem.

It is particularly impressive that the anti-unemployment measures, whose origins can be traced back to the experience of large-scale unemployment in the 1920s, continued to exist for such a long time (until 1955). The problem of unemployment on a massive scale could not be effectively tackled by normal job placement procedures for offering work opportunities. Thus the government had to take urgent measures, notably the direct employment of unemployed job-seekers as day labourers on public works projects. These constituted the major part of the unemployment relief projects. In passing, as we noted, GHQ exerted a strong influence in the enactment of these laws.

(2) The subsequent course of developments in labour market policy was marked by the Vocational Training Law of 1958. The background to this was the quantitative and qualitative shortage of skilled labour to meet the requirements which economic growth and changing industrial structure had stimulated, and the inadequacy of the programmes of job guidance (in practice an unemployment relief programme) and technician training (whose content was governed by regulations based on the Labour Standards Law's intention of suppressing ("sweated labour"). In 1961 the Vocational Training Bureau established and made independent of the Employment Security Bureau.

As early as the mid-1950s policy-makers began to concern themselves with the achievement of full employment (Five-year Economic Autonomy Plan, 1955). But as the Report of the Council on Employment (1959) pointed out, this required a solution of the problem of disguised unemployment which aggravated the ills of the dual structure, and a large reduction in the numbers of those failing to find regular work. The problem of disguised unemployment was largely alleviated by economic growth based on the development of a heavy chemicals industry and technological innovation.

(3) The Employment Policy Law (1966) had a "historic significance" in post-war Japanese labour market policy in that it officially proclaimed the achievement of full employment as a major policy goal. This law and the related subsequent legislation may be

regarded as having created the Japanese labour market policy model.¹⁴ These developments coincided, at the height of the period of rapid economic growth, with other major occurrences such as OECD accession, IMF Article 8 status, the Tokyo Olympics, the opening of the Shinkansen high-speed train service, the development of a shortage of young workers, the deterioration of the urban environment and pollution problems, liberalisation of capital and trade, modernisation of the sub-contracting system, re-organisation of corporate governance and the move to a more open economy.

The Employment Policy Law was “historic” in that it established full employment as a government policy objective and accorded an autonomous rationale to labour market policy, thus making it possible for a long-term systematic approach to such policy to be adopted, including co-ordination with economic and industrial policy, symbolised by the Employment Measures Basic Plans, which continue to this day.

The Employment Policy Law was recognised at the time as the embodiment of active labour market policy. Its enactment was based on Japan’s domestic needs, but also reflected the strong policy influence of the ILO and OECD.

(4) Among the subsequent related items of legislation, the Employment Insurance Law (1974) and the Revised Vocational Training Law (1978) were of particular importance.

The former of these two laws furnished an independent source of funding, adding employment insurance to the former unemployment insurance, to channel subsidies and support to employers through the three employment insurance programmes (the employment security, skill development and employment welfare programmes). The employment security programme included subsidies for extending retiring age, for employment adjustment payments, for child-care leave allowances, and for regional employment promotion payments. The skill development programme provided an important addition to support for in-service training, in the form of paid leave for training purposes, on top of the enhancement of publicly provided skill development. Later the skill development programme was expanded by the Revised Vocational Training Law (1978). The policy idea embodied in this latter law aimed at fostering a move from directing support away from technicians and towards general white-collar workers, and from general training for young people towards an expansion of lifetime education; it also tried to shift the leading role in training away from the public provision of training and to give more emphasis and assistance to the role of the private sector in setting its own objectives and deciding how to achieve them. Policy-makers were very conscious of the predominant role of in-company OJT (on-the-job training), provided by firms themselves, in human resource development. The subsequent Vocational Skill Development Promotion Law (1985) sought to take this line of thinking a step further.

Thus the three employment insurance programmes were characterised by the way in which they sought to enhance workers’ job security, skill development and welfare by providing subsidy and support to their employers.

(5) What are the distinguishing characteristics of the Japanese labour market model as embodied in the Employment Policy Law and the Employment Insurance Law?

¹⁴ This point is also suggested by, for example, the Ministry of Labour which at the Detroit Employment Summit in March 1994 gave an account of the evolution of Japanese employment policies and “described how Japan’s employment policies had developed from seeking to protect the livelihood, and facilitate re-employment, of workers who had lost their jobs to aiming proactively at preventing unemployment by using firms’ internal labour markets and subsidising firms’ own efforts to maintain long-term stable employment; and how the Unemployment Insurance Law had been replaced by the Employment Insurance Law, and the three employment insurance programmes established and sustained by ensuring they had their own funds” (Wakabayashi 1995:193).

First, the continuing adoption of the Employment Measures Basic Plan as a means of evaluating the effectiveness of, and implementing, the official commitment to achieving full employment.

Second, the co-ordination of policy management, according the same degree of importance to labour market policy as to economic and industrial policy.

Third, the use by labour market policy, in furtherance of the goal of full employment, of employment security, job placement, skill development and job creation measures in order to correct imbalances between labour supply and demand according to region, types of work, sex and age.

Fourth, the implementation of labour market policy, as in the case of the three employment insurance programmes, through assistance and support to employers in aiming at improving employees' job security, skill development and welfare. For this purpose a fixed part of the employment insurance payments made by employers provides an independent source of funds.

Fifth, the Japanese labour market policy model takes account, both in planning and in implementation, of the existence of a free labour market and of established employment practices.

To sum up, the basic goal of labour market policy is full employment. With this objective in mind it lays stress on the performance of the free market (and consequently depends heavily, in matters of job security and training, on firms and on the operation of the market), and seeks to correct structural imbalances in labour supply and demand. The Japanese model may be said to be made up of the following components: implementation based on a continuous history of Employment Measures Basic Plans; co-ordination of labour market policy with economic and industrial policy; independent funding derived from employment insurance for support and subsidies offered to employers; specific programmes for employment insurance, job placement, skill development and job creation; and a neo-corporatist decision-making process¹⁵.

(6) A study of the formation of the Japanese model suggests a number of points which are relevant to an international comparison of labour market policies.

First, Japanese labour market policy initially was concerned with the problem of massive unemployment, but in time shifted its focus towards the structural changes in the industrial structure and in the labour market which had been induced by economic growth. In particular, it was confronted with the problems of quantitative and qualitative labour shortages and of structural imbalances in labour supply and demand. In the early post-war the government went so far as to offer direct employment on unemployment relief programmes. However the basic orientation of the Japanese model is rather to accept the workings of the free market and the nature of firms' employment practices, and within this framework to try to deal with problems of structural imbalance which arise (and thereby to aim for full employment). This illustrates two structural dimensions of labour market policy. First, is there a problem of unemployment or of labour shortage? Second, is the problem to be solved by the government, or by firms and the workings of the market?

Secondly, as far as actual policy programmes are concerned, the government responded to the post-war unemployment problem not only by direct employment as an emergency measure (i.e. the unemployment relief programme), but also by organised systems of unemployment insurance and publicly provided job placement services. The vocational training system, as noted above, developed later than the unemployment insurance and job placement

¹⁵ cf. Inagami et al. (1994); Inagami (1966).

systems; in response to changes in industrial structure and in the labour market it was overhauled and enhanced. Still later the idea of job creation made its appearance. Unemployment benefit is now payable for a maximum of 300 days (older workers with many years of service) and a minimum of 90 days at up to 80 per cent of the workers' previous basic wage. Contributions have to be paid for at least six months in the year before benefit is claimed.

These five policy programmes and the order in which they were introduced reflect the trend from passive labour market policy focussed on the unemployed to active policies aimed at full employment. This illustrates the active/passive dimension of labour market policies.

Thirdly, the sense in which vocational training policy may be said to have "lagged" arises from the fact the workers' training was basically dependent on the human resource development processes in individual firms, and that policy-makers felt that the most effective way to contribute was by subsidy and support to the private sector. Support from training within firms was therefore one of the three main components of the Vocational Training Law (1958). This kind of policy thinking became more evident as the Japanese model became established.

1.2 The evolution and changing character of the Japanese model

We have considered the origins and distinguishing characteristics of the Japanese labour market policy model as it developed into the form it had taken by about 1975. We now turn to its subsequent course of development. Important legislative changes resulted from the difficulties experienced with intensified Japan-US trade friction, the recession caused by the yen's appreciation as a consequence of the Plaza Accord, and the bubble economy. This turbulence grew still more severe as a result of the very high level which the yen reached in the 1990s and the protracted economic recession. Nevertheless, the basic character of the Japanese model has not fundamentally changed.¹⁶

Before touching on the subtle changes which have taken place in the model over the past 10 years, it is necessary to say a few words about the relationship between the model and Japanese employment practices.

The Japanese model and Japanese employment practices

In some respects the Japanese labour market policy model is dependent on Japanese employment practices. Dore (1973) described these practices and the workings of Japanese industrial relations as "welfare corporatism". The practices of long-term employment and seniority related pay made a major contribution to bringing about full employment and assuring security for workers' livelihoods, and in that sense it may be said that functionally speaking these practices provided a partial substituted for a welfare state. The expression welfare corporatism described this relationship. But this is not all: an essential feature of Japanese-style employment is investment by firms in human resource development (cf. Inagami 1996), which makes vocational training policy dependent on the effectiveness of skill development in firms. This dependent relationship between employment policy and employment practices applies to job security, training, and the guaranteeing of workers' livelihoods.

¹⁶ This point is brought out in the "Japan paper" presented at the Detroit summit mentioned above (1994).

However, there is another aspect of the relationship between the policy model and employment practices, which embodies a delicate antagonism. As already noted, the policy model is one which aims to rectify structural imbalances between labour supply and demand. The Ministry of Labour regards variations according to region, industrial sector, and types of work as sources of such imbalance. For example, the Law on Provisional Measures for Former Colliery Workers (1959) and the Laws on Provisional Measures for Former Workers in Specified Depressed Areas (1977) and on Provisional Measures for Former Workers in Specified Depressed Trades (1978), which were passed in the wake of the first oil crisis, exemplify attempts to deal with structural imbalances arising as a result of these regional and industrial variations (Kato 1987:60f.; Okabe 1989:91-107).

A further source of structural imbalances arises in relation to workers characterised by such ascriptive attributes, as age, physical handicap or (female) sex. It would be impossible to expect Japanese employment practices to eliminate the associated labour market distortion: on the contrary, as the Ministry of Labour has recognised, the contrary is the case, although, as noted by Shirai Kentaro, who as Director of the Employment Security Bureau (later administrative Vice-Minister) in his *Recollections of the early 1960s* (1987), the period when policies to promote employment of older workers first made their appearance, subsequent economic growth has considerably improved employment opportunities for such workers. But the labour supply/demand imbalance “cannot be considered easy to solve, in view of the country’s tradition of lifetime employment and ill adaptedness to finding employment opportunities for older workers”. Moreover, “At that time and subsequently there was particular awareness of the role played in Japan by ‘the linkage between lifetime employment and the seniority-based wage system’ and of ‘the strictness with which the retiring age system was enforced, compelling retirement at a relatively early age’ (Shirai 1987:52-3). More explicitly, “The obstacles to promoting employment prospects for older workers are not only the difficulty such workers have, compared with younger ones, in adapting to new types of work, but also the fact that in Japan the seniority-based wage system forms the basis for the practice of concentrating on the recruitment of new school-leavers. Thus even in the case of types of work where emotional maturity, and extensive professional and personal experience, are of particular importance, older workers tend to be squeezed out of employment opportunities by younger ones because of these traditional practices; and as a result older workers seeking re-employment are faced with serious problems” (Shirai 1987:123).

Thus Shirai argues that the reason why job opportunities for older workers did not increase greatly despite the country’s striking economic growth is that, in addition to the problems caused by these workers’ lower levels of ability to learn new skills, the traditional employment practices also created obstacles to their employment: in particular, the practice of concentrating on the recruitment of new school-leavers (a practice linked to the seniority-based wage system), and the “excessively low” fixed retiring age system. This classical interpretation, which can be traced back to the 1960s, has continued to form the cornerstone of subsequent labour market policy. Policy measures based on it include: (1) the Employment Adjustment Payment System, mentioned above; (2) the Older Workers Employment Promotion Special Measures Law (the so-called Old Workers Law, 1971), which prescribed a normative rate of employment of older workers, in each category of work, which firms had a duty to try to attain, and which was the first comprehensive piece of legislation dealing with promoting employment for older workers; (3) the Plan for Promoting Retirement Age Extension to 60, which derived from the Second Employment Policy Basic Plan (1973-76); (4) the extension of the Retirement Extension Promotion Payments system to apply to large firms (1976); (5) the revision of the Older Workers Law, and the prescription of an employment rate of 6 per cent

for older workers¹⁷, in the light of the severe conditions brought about by the oil crisis (1976) (since abolished); (6) the revised Continued Employment Promotion Payment System, aimed at encouraging re-employment or extension of employment after retirement, on the basis of a retiring age of 60 or over. The basic policy on promoting employment for older workers, based on the classical interpretation of the problem set out above, is still in operation; the Older Workers Law was amended by the Older Workers Employment Security Law (1986).

As the case of employment promotion policy for older workers illustrates, there are times when the Japanese labour market policy model and Japan's customary employment practices are in conflict. One might say that the policy model aims at "correction" of the employment practices. In the case of older workers this is done by increasing employment opportunities for older workers in the internal labour markets of large firms (job creation) through retiring age extension and other measures, and to that end aiming at the correction of problems arising from a high seniority wage by dealing with job evaluation wages and duty pay. This can be encapsulated as an attempt to guarantee long-term security employment by making the necessary corrections to the wage system. This approach is clear in the Third Employment Policy Basic Plan (1976-79).

Equality of employment opportunity and the Child-care Leave Law

Recognition of the subtle structural antithesis between the Japanese employment policy model and traditional employment practices, and the effort to "rectify" the effects of these practices, was not confined to the employment of older and physically handicapped workers¹⁸ but extended also to the employment of women, leading to the Equal Employment Opportunity Law (1986). This aimed at expanding employment opportunities for women, to give them the same chances of getting full-time employment as men, and to that end had two main components: regulations concerning basic standards, which firms were required to respect, prohibiting some practices and imposing certain obligations on firms to exert themselves to comply, and measures to provide support to facilitate the employment of women.

Part of the background to this legislation lay in the International Women's Year (1975) and the Japanese government's accession (1980) to the treaty adopted by the United Nations to abolish discrimination against women (Endo 1985:79-86), but it also reflected Japanese realities. Japanese employment practices regarded regular male employees as full members of the firm as a community, but even if women were full-time employees they would tend to leave employment on marriage or when pregnant (and thus there were not many regular female employees with records of long-term employment to retiring age), and therefore tended not to be accepted as full members of the firm (cf. Inagami 1988). This does not in itself permit one to say that Japanese employment practices were sexually discriminatory, but the Equal Employment Opportunity Law did involve a direct intervention into firms' internal labour markets and a significant modification of personnel management practice. The standards enjoined on firms comprised a proscription of discrimination on grounds of sex in relation to training, welfare, retirement and dismissal, and an obligation to strive for equality in relation

¹⁷ The plan for employment rates for older workers by occupational category began in 1965 in government offices, and was taken up the following year in the Employment Policy. For details, see Shirai (1987:123-5).

¹⁸ After the major revision of the Physically Handicapped Persons Employment Promotion Law in 1976 (prescribing a proportion of handicapped workers to be employed and establishing a system of levies payable by non-complying employers), it was planned to enhance it by a Handicapped Persons Employment Promotion Law.

to recruitment, hiring, job allocation and promotion.¹⁹ Local authority Women and Minors Offices were provided with publicity, advice, and guidance to publicise the measure. They were also required to offer mediation services. In addition, the Ministry of Labour produced a detailed explanatory manual. The provisions of the Equal Employment Opportunity Law were amplified by the Child and Family Care Leave Law (1991), which provided assistance to employers specifically directed at facilitating continuing employment or re-employment for workers with child or other family care obligations (in reality overwhelmingly women).

Whether one considers the Older Workers Employment Security Law, the Equal Employment Opportunity Law, or the Handicapped Workers Employment Promotion Law (1987), the underlying logic is the same, namely to rectify problems engendered by Japanese employment practices, and to relieve structural imbalances in labour supply and demand with a view to achieving full employment.

An atypical case of labour expansion: The Dispatched Labour Law and the Part-time Work Law

In reference to Japanese employment practices, legislation governing another and atypical form of labour deserves attention. In the “Japan Report” for the OECD Job Study (1993), it is observed that this atypical kind of labour “serves a buffer to protect the regular labour force from the impact of fluctuations in the economy”, and that “the security of employment of these workers is a problem which needs to be considered” (Wakabayashi 1995:167).

It is a matter for discussion to what extent dispatched labour (i.e. a worker with a contract with the employer working under the instruction of another) is atypical (particularly in the case of the companies specialising in labour dispatch). The Dispatched Labour Law, which was passed in 1985, reflected the growth in this kind of labour arising from such trends as mechanisation, increased use of information technology, growth of the service sector of the economy, as well as from the diversity of employment preferences of women and many older workers. Industry’s requirements for dispatched labour had also grown, notably in information processing and office work (Endo 1985:135-142). However, this law by no means wholly abandoned the prohibition in principle of labour supply businesses embodied in Clause 44 of the Employment Security Law: “With a view to keeping in harmony with Japanese employment practices, a limitation is imposed on the kinds of work in which labour dispatch is permitted; this is intended to prevent such workers being employed in place of regular employees” (Endo 1985:197). This is not just a matter of barring dispatched workers from such areas as dock-working and construction: just 17 kinds of work are specified in which labour dispatch is permitted. In addition there is a detailed system of regulation, requiring permits and registration for the general labour dispatch businesses, encompassing the firms from which and to which dispatch is made.

However, support for the principle of limiting dispatched labour to a few specified types of work (the so-called “positive list”) has become much weaker of late and it may well be that the system will be replaced by one in which, with a certain number of exceptions all types of work are in principle “de-restricted”. If so, it will mean that in the rush to de-regulate, there will have been a substantial abandonment of the earlier policy commitment to discourage labour dispatch in order to protect Japanese employment practices (by preventing substitution of dispatched workers for regular employees).

¹⁹ By an amendment to this law in 1997, all of these obligations on firms to strive for equality were made subject to prohibition of failure to comply. In addition, mediation proceedings through an equal opportunity mediation commission could be initiated unilaterally, without prior agreement of both employer and employee.

It is necessary to say a few words about the Part-time Work Law, which deals with a classic kind of atypical labour. From the mid-1970s onwards the number of part-time workers steadily increased (by 1996 it was over a million, and part-time workers accounted for about 20 per cent of the total number of those employed). This has led to a number of problems, such as lack of clarity about proposed conditions of work, unsuitable employment management, “pseudo-part-time” workers whose working time is much the same as that of regular employees, and problems involving the tax system. Policy, however, did not succeed in keeping up with these developments. One reason is that, as mentioned above, part-time labour serves as a buffer protecting existing employment practices. In almost all enterprise trade unions the part-time workers are not eligible for union membership, and the unions are liable to lack zeal in pressing for improvements in their working conditions.

In 1984 a set of Part-time Labour Policy Guidelines was published, with the aim of promoting enlightened employment practices, but it was not until 1993 that the Part-time Work Law was passed. This prescribed the provision of conditions of employment in writing, set up a regulatory system for part-time workers, and established a Short-time Work Assistance Centres as a resource for part-time workers and their employers to improve employment management. A Ministry of Labour research group has recently reported that both in reality and in public awareness there has been a trend to much greater diversity in the management and employment of part-time workers; the group points out the need to give greater attention to such workers’ needs, and to accord them treatment more in line with that given to regular employees in such areas as career development, education and training, severance pay and pensions (cf., Part-time Work Research Group 1997).

Policy on foreign workers: Amendment of the Immigration Control Law

Since the early 1990s there has been much interest in the Republic of Korea, Singapore, Taiwan, Malaysia, and elsewhere, in the adoption of policies on the numerous foreign workers who have come to those countries as a consequence of labour shortage. In Japan in the second half of the 1980s, during the bubble economy, there was similar strong interest in this subject.

Japanese policy focuses on immigration control at the point of entry (an approach called “threshold” or “water’s edge” policy), and does not concern itself with the system of employment law as such, but immigration control has an important impact on the nature of the foreign worker question. The reason that this question became the object of major social concern lies in the fact that, against a background of labour shortages in industries with a negative image (known as “3K” from the Japanese words for dirty, depressing and difficult), the bubble economy in the latter 1980s further aggravated this labour shortage. In particular, there were demands, centring on (groups of) employers in small and medium enterprises, concerning the recognition of (individual) foreign workers’ employment. There was also a rapid increase in the number of illegal foreign workers, and associated social problems arising from the underground activities of “brokers” who placed them. This led to calls, from a human rights perspective, for “legalisation”.

The amendment of the Immigration Control Law (1990) had four important components. First, simple or unskilled foreign workers continued to be prohibited from taking employment. To prevent infractions of this a system of penalties for employers was instituted. Second, the entry quota for specialist workers was greatly expanded, and the number of qualifications for residence increased from 18 to 28. Third, in order to promote technology transfer to the countries from which workers came, a new system of foreign trainees was established (and from 1993 an additional system of practical training was created, permitting a much longer

period of stay). Fourth, foreigners of Japanese ethnic origin were granted right of residence irrespective of their activity while in Japan. Although such foreigners, if two or three generations removed from their Japanese origins, often did not understand Japanese, they were given the right of free activity while in Japan, including taking employment as individuals. This was a major contradiction of the general principle whereby this right was denied to foreigners (cf. Inagami 1992).

After this revision of the law, various moves were made to promote placement of foreign workers in legal employment, such as Foreign Worker Employment Service Centres and Foreign-born Ethnic Japanese Employment Service Centres. Mandatory guidelines for employers of foreign workers, dealing with employment and conditions of work, were also promulgated (1993), and in the same year a system of reporting on the employment of foreigners was established. On the basis of reports by employers, guidance and assistance could be offered to improve the management of foreign workers' employment and steps taken to prevent unemployment and promote re-employment (Wakabayashi 1995:309-315; Takanashi 1995:761-772).

Is the Japanese model changing? A re-consideration of the relation with employment practices

As stated earlier, the fundamental objective of the Japanese labour market policy model is full employment. With this objective in mind it lays stress on the performance of the free market (and consequently depends heavily, in matters of job security and training, on firms and on the operation of the market), and seeks to correct structural imbalances in labour supply and demand. The Japanese model may be said to be made up of the following components: implementation based on a continuous history of Employment Measures Basic Plans; co-ordination of labour market policy with economic and industrial policies (i.e. allowing some revision of the two latter in the light of the labour market situation); independent funding derived from employment insurance for support and subsidies offered to employers; specific programmes for employment insurance, job placement, skill development and job creation; and a neo-corporatist decision-making process. Despite the recent prominence given to de-regulation and administrative reform, the model has not fundamentally changed.

However, while recognising this character, one must also recognise the relationship it has in concrete terms with Japanese employment practices in regard to "correction of structural imbalances in labour supply and demand". In the pursuit of the goal of full employment these practices play a supportive role by fostering long-term stable employment. The employment adjustment payment system is aimed at "unemployment control". However Japanese employment practices are "unkind" in their impact on older workers, the physically handicapped, women and those who are not regular employees. Indeed, these practices tend to exclude such workers. This structural exclusiveness is encompassed by the expression "structural imbalances". Accordingly, although the model admits the existence and functioning of the employment practices, in pursuit of full employment it also needs to rectify the structural imbalances which those practices create.

It must be said that the Ministry of Labour's thinking on the extent to which Japanese employment practices should be taken as a "policy assumption" may be in the process of change, as a result of such developments as the growth of public concern with de-regulation, arguments concerning the "collapse" of Japanese employment practices, and proposals for reform of the model (e.g. by the employers' organisation Nikkeiren in 1995). For example, as implied above, a drastic revision of the Dispatched Labour Law (including "de-restriction" in principle of the limit on kinds of work involved) could reduce the opportunities for

long-term secure employment and thus fatally damage the existing pattern of employment practice. Another instance is the possibility, currently being considered by the Central Council on Labour Standards in relation to amendment of the Labour Standards Law, of three-year contracts for R&D workers (at present the law requires either contracts for less than one year or indefinite employment). Another move likely to increase labour mobility is the expansion of the Business Career system for white-collar workers established in 1993 (involving enhanced opportunities for private-sector educational and training opportunities for such workers and certification of job qualifications), together with the probable liberalisation of private, fee-paying job placement services.

Consequently, the new trends in labour market policy may not fit well with the image of the Japanese model as one which treats existing employment practices as a necessary premise in aiming for full employment. There may instead be a change (spontaneous or enforced) to a basic approach which accepts partial dissolution of existing practices as tolerable if full employment can be attained - or indeed which regards increased mobility as necessary in order to preserve full employment.

Thus the Japanese model itself has not fundamentally changed, but its relationship with Japanese employment practices is undergoing a subtle change. This reflects a number of recent changes in the policy environment, such as the long-term 1990s recession following the bursting of the bubble economy, very high values of the yen and industrial "hollowing-out", intensified international competition and the acceptance of global standards, the importance of information technology and technological innovation, the excessive payroll costs of older white-collar workers, and the increased desire for employment among highly educated women.

2. Singapore's labour market policies

Singapore is a small city-state which, unlike Malaysia, does not possess natural resources of its own, but in the words of Prime Minister Go Chok Tong, "Singapore's greatest resource is its human resources"²⁰. The notion of economic development based on human resources, in a country without natural resources, is one which broadly applies not only to Singapore, but also to other Asian NIEs (the Republic of Korea, Taiwan, Hong Kong, China).

We shall here consider what sorts of developments were involved in formulating Singapore's labour market policies, what problems they confront, and how they seek to deal with those problems.

2.1 Major epochs

Economic growth, labour market problems and human resource development

Singapore is currently considered to have one of the most internationally competitive economies in the world according to the 1996 World Competitiveness Report. In 1960, however, it was still a developing country, with an unemployment rate as high as 14 per cent. In the early 1960s Singapore adopted a development strategy of labour-intensive export-oriented industrialisation (EOI), and for this purpose set up the Economic Development Board (EDB). Promotion of foreign investment, development of infrastructure, and finance for industrialisation were all given high priority; the government also had a strong consciousness of the importance of human resource development (Tan 1997), and set about educational reform, increasing the scientific, technological and business orientation of the schools' curriculum, and enhancing intermediate-level technical education.

During the 1970s Singapore achieved the remarkable annual economic growth rate of 8-9 per cent. This was due to the development of modern industries, largely dependent on multi-national enterprises, and the rise of the service sector. These changes were accompanied by a steady fall in the unemployment rate from 6 per cent in 1970 to 3.3 per cent in 1979. The basic problem of labour market policy had already ceased to be unemployment. In 1972 full employment was achieved. From this time the main fight became one against labour shortage. A major concern was raising productivity so that demand for labour did not grow. The Singapore government established a National Productivity Board to further this purpose in 1972. It was particularly concerned with fostering vocational training and good industrial relations. In addition, in the first half of the 1970s a number of training centres were established, with the assistance of foreign capital, in areas such as tool and metal machining and precision and electro machining.²¹ Also, continuing into the 1980s, with Japanese, French

²⁰ Statement of the Prime Minister on the establishment of the ITEs; cf. Straits Times, May 1-3 1992.

²¹ Examples include skilled worker training facilities, such as the Philips Government Training Centre established in 1975 with technical assistance from Philips Singapore, the Tata Government Training Centre set up in 1972 with the co-operation of India's Tata Corporation and the Brown Boveri Government Training Centre set up in 1973 with help from Brown Boveri of West Germany, and establishments for training technicians, such as the Japan-Singapore Technical Institute, which was set up in its present form in 1983 with Japanese government support. For contemporary details, see Ueno and Kakisu (1987:111-4, 128-37), Harada (1983:78f.).

and German assistance further training facilities (German-Singapore Institute, French-Singapore Institute, Japan-Singapore Institute of Software Technology) were set up under EDB auspices, providing for the training of technical specialists for high value-added industries (Harada 1983: 77-80).

In 1979, with the expression “second industrial revolution” the government declared its intention to move the economy towards a technology-intensive, high value-added orientation. The economic growth rate during the 1980s averaged 7 per cent²², despite a recession in 1985. Inward foreign direct investment continued to flow steadily. The new orientation to a high value-added economy led to the recognition of human resource development (HRD) as an important policy issue, since it was seen that the basis of such an economy must lie in the development of human resources. The government set up a Skills Development Fund (SDF) in 1979, based on the Skills Development Levy Act (SDLA) passed in the same year. This constituted a system whereby a set amount of money was collected from the employers of relatively low-paid workers and used to subsidise those employees’ education and training.²³ Also in 1979, the Committee on Professional and Technical Education (CPTe) was established as a deliberative and planning body for specialist, technical and skilled labour, and a Vocational and Industrial Training Board (VITB) was set up, with responsibility for skill development for workers who had completed secondary education. The fact that all these new measures and organisations were introduced all together, in 1979, shows how seriously the question of human resource development was taken as a requirement in pursuit of the new policy objective of structural reform of the economy. Multinational firms were also mobilised for this purpose, as illustrated by examples such as the IBM Information Technology Programme for Office Workers, Philips Industrial Engineering Programme, and the FESTO Industrial Automation Programme for Workers (Tan 1997:3-6).

Thus we can see that, in the small city-state of Singapore, the basic character of labour market policy problems had changed by the early 1970s. This was one of the consequences of the export-oriented industrialisation which took place after independence. The problem of unemployment largely receded, and in its place labour shortages began to make themselves felt. In particular, in 1979, with the identification of a technology-intensive and knowledge-intensive industrial structure and high value-added orientation as national objectives, policy thinking focussed on the importance of ensuring suitable human resources. In that sense labour market policies came to have a high degree of importance for Singapore. It is undoubtedly true that, for natural resource-poor “East Asian countries with export-oriented industrialisation, the effective use of human resources is of central importance” (Deyo 1992:304).

A second observation we may make is the importance of the SDLA in the policy programme. As explained above, this constituted a system whereby a set amount of money was collected from the employers of relatively low-paid workers and used to subsidise those employees’ education and training. In its content it more closely resembles the Republic of Korea’s Basic Vocational Training Act of 1976 than the Skill Development Programme of the Japanese Employment Policy Law of 1964.

²² In 1990-94 foreign sources accounted for 80.2 per cent of investment in the manufacturing sector (Takeno 1997). See also Leggett (1996) and Castells (1992).

²³ The Skills Development Fund is financed entirely from employers’ obligatory contributions. However, the obligation only applies in respect of employees whose monthly net pay is less than 1,000 dollars. The contribution is set at 1 per cent of monthly pay, rounded to the nearest dollar. Thus for an employee with a monthly wage of 630 dollars the employer would pay 6 dollars. Estimates based on CPF data suggest that the proportion of employees earning less than 1,000 dollars per month is 19.3 per cent of the total.

Thirdly, and in this respect quite unlike the Republic of Korea, the active encouragement of foreign investment and the role played by multinational firms had a very strong significance for Singapore's economic development and human resource development.

Fourthly, the idea that Singapore, having few natural resources, should develop its economy through human resource development, is of long standing.

Trade Unions and Industrial Relations: From suppression to inclusion

A point which should be taken up here is one which is often referred to in discussions of the East Asian economic "miracle", namely repressive treatment of labour by the state or "suppression of labour", and the ways in which its nature has changed over time (cf. Deyo 1989; Henderson and Applebaum 1992; Verma et al. 1995; Lansbury 1996).

During the initial phase of industrialisation, up to the 1960s, the Singaporean government's attitude was "repressive" towards labour. In 1960 the People's Action Party (PAP), which had taken power in 1959, introduced a system of compulsory arbitration by a revised Industrial Relations Ordinance, which exemplified the new government's interventionist approach. In the same year a revised Trade Unions Ordinance, which regulated disruptive behaviour with "unlawful" objectives by unions, tightened the system of union registration. Between 1959 and 1966 14 unions were refused registration, and 138 unions were de-registered (Tan and Chew 1996:143; Leggett 1996:75f.). A further amendment to the Trade Unions Ordinance in 1966 tightened still more the definition of an industrial dispute by requiring the support of at least two-thirds of union members in a secret ballot for a dispute to be legal. Essentially the government's basic objectives were to promote a collective bargaining system from which truculent leftists and dissatisfied factions were excluded from the leadership of the union movement, and to foster a more co-operative unionism (Deyo 1989:123f.).

However, by the late 1960s a new trend emerged which diverged slightly from the repressive industrial relations policies followed by the government in its early stages. This development was represented by two major new laws in 1968, the Employment Act and the Industrial Relations Act, by the policy shift towards "New Unionism" by the National Trade Union Congress (NTUC) in 1969, and by the establishment, through the setting-up of the National Wage Council (NWC) in 1972 of a system of tripartism or national corporatism.²⁴ The government sought the support of the NTUC as "a measure in aid of economic development policy", conceding union fee check-off and a variety of other benefits to union members, under NTUC direction. During the 1970s union membership doubled.

In 1995, 73 of the existing 81 trade unions were NTUC members. The remainder, comprising small craft or enterprise unions, accounted for only 1.5 per cent of total union membership (SMOL 1996:13).

2.2 Current labour market policies

The National Wages Council

As mentioned above, the NWC was set up in 1972. It is chaired by a leading economist (currently Prof Lim Chong Yah of Nanyang Technical University) and its members comprise

²⁴ On the subject of Singaporean corporatism, cf. Deyo (1989); Leggett (1993); Frenkel ed. (1993); Begin (1995); Tan (1995).

five representatives each from government, employers and unions. On the employers' side, in addition to the President of the Singapore National Employers' Federation (SNEF) and the head of the Singapore Chamber of Commerce, there is representation of the multinational companies (Japanese, German, and American) which have played an important part in Singapore's economic development. Union representatives are drawn from the membership of the central executive committee of the NTUC and the General Secretaries of the major industrial unions. The government side included the Permanent Secretaries of the Prime Minister's Office, of the Ministries of Trade and Industry and of Labour, and of Economic Development Agency (SMOL <http://www.gov.sg/mol/Apr 15 1997>). The senior leadership of all three sides is thus represented.

The NWC has three main tasks. First, it lays down annual guidelines on wage increases. Second, it makes recommendations on pay structure and management in the light of policies for long-term development. Third, it makes recommendations aimed at the enhancement of operational efficiency and productivity. The guidelines on wage rises are not legally binding, but in practice they carry substantial weight (Tan and Chew 1996:145f.). In this respect they have more impact than the comparable wage restraint policies in the Republic of Korea.

The 1997 NWC Guidelines, announced on 31 May 1997 and operative from 1 July 1997 to 30 June 1998, give consideration to the previous year's record on productivity and international competitiveness, labour markets and wage rises, and economic performance, and to economic prospects for 1997. Among the major points made by the guidelines on (a) wage increases and (b) reform of the system of pay determination were: (1) the need to keep wage rises under control in the light of intensifying international competition and the prospect of slower growth rates; (2) the need for efforts by labour and management to raise productivity in order to assure rising wages over the long term; (3) on the principle of wage rises, "Wage rises must reflect economic performance. Rises in basic pay should be lower than the rate at which productivity rises. Other variations in pay should reflect the management circumstances in different enterprises"; (4) the importance, since 1986, of "flexible pay systems", in which so far as possible wage rises are based on a bonus or similarly variable system; (5) bonuses to outstandingly capable employees in recognition of their contribution; (6) a higher rate of wage rises for low-paid employees, to narrow the wages gap; (7) the change from seniority-based to ability-related pay determination; (8) a welcome for the Base-up Wage System²⁵ proposed by the NTUC in place of seniority wages, and a call for labour and management to strive for its implementation.

In addition, there are recommendations on (c) investment by firms in employee skill development. First, for an expansion of the Skills Redevelopment Programme (SRP) proposed by the NTUC with the support of the EDB, PSB and ITE, with a particular focus on re-training of older workers. Second, for an expansion of the SNEF's initiative on employee training by small and medium enterprises which tend to lag behind large firms in employee education and training.

Also, in the light of the prospect that Singapore will be increasingly faced by problems of labour shortage and a rapidly ageing workforce²⁶, (d) a need is identified for the efficient use of the potential labour force. One measure urged is an increase in the age of retirement,

²⁵ Three basic principles underlie the Base-up Wage System which is offered as a replacement for seniority-based wages: First, the wages should reflect the value of the job and the desirable maximum/minimum salary ratio should on average be about 1.5; Second, wage increase should be linked to productivity growth with appropriate recognition given to experience gained in service; Third, productivity gains should be shared by all employees. cf., The 1997 NWC Recommendations.

²⁶ On this point, see IMF (1997).

so that older workers can continue working for as long as possible. Another is to increase the rate of employment (including part-time employment) of women.²⁷ Both these measures should not only tend to relieve the expected labour shortage problem, but also contribute to reducing the country's dependence on foreign workers, and to that end the NWC recommends an expansion of the Back to Work Programme proposed by the Ministry of Labour together with the PSB, NTUC and SNEF. It also supports (E) the introduction of a revised system of Co-payment of Medical Expenses.

Finally, the Guidelines state as follows:

“Singapore must continue to promote a harmonious industrial relations climate through close tripartite co-operation between the government, employers and trade unions. Close labour management cooperation is an important contributing factor to our economic development and social progress. The three social partners should therefore continue to work closely together to preserve industrial harmony so that Singapore can remain an attractive place for investments. This will enable Singapore to enjoy continued economic growth and further improve the well-being of all Singaporeans” — from The 1997 NWC Recommendations.

These recommendations, for (1) moderation in wage rises, (2) promotion of a flexible and ability-based wage system, (3) activation in the labour force of older workers and women workers in order to head off labour shortage problems, and (4) enhancement of training in smaller enterprises, all serve to further the goals of maintaining and improving international competitiveness and encouraging inward direct investment from abroad. The NWC, incorporating government, labour and management bodies in a tripartite system, in prescribing and promoting these policy objectives, can thus be seen to have an extremely important role. This system, involving the participation of representatives of multinational companies on the employers' side, symbolise a kind of corporatism in the small Singaporean city-state.

Policies towards foreign workers

The problem of labour shortage, leading in turn to pressure for wage rises, goes back some way in Singapore. This led to the need for the introduction and further development of incomes policies, centred on the NWC. In this context we may note that, with an average unemployment rate of 2.0 per cent between 1988 and 1996, Singapore enjoyed extremely full employment during this period (SMOL 1997:161). Policies to relieve or solve the problem of labour shortage, which has come to assume major importance, include the effective use of the potential labour force through policies directed at older and women workers, and also the limited introduction of foreign workers.

The basic approach of the Singapore government is to relieve the chronic domestic labour shortage by allowing the shortfall, to the extent necessary, to be made up for by the introduction of foreign workers, while preventing a large influx of unskilled labour. The Employment of Foreign Workers Act, passed in 1990, provides for upper limits, for each industry, on the numbers of foreign workers (Dependency Ceiling), and a levy (the Foreign Worker Levy) on firms which employ foreign workers. Table 1 shows the dependency ceilings for different industries.

²⁷ The current rate of employment among women across all ages is approximately 50 per cent. The proportion of part-time workers is extremely low; cf. 1996 Singapore Yearbook of Labour Statistics: Table 1.1.

Table 1: Dependency regulation of foreign workers and levy rate in Singapore

Sector	Dependency level	Levy rate per month for each worker
		⁽¹⁾ 330S\$ (at < 40% dependency level)
Manufacturing	Up to 50% of the total	S\$400 (at 40-50%) S\$200 ÷ S\$100* (skilled workers)
Construction	1 local to 5 foreign workers	S\$440 ÷ 470* (unskilled) S\$200 ÷ S\$100* (skilled workers)
Marine	1 local to 3 foreign workers	S\$385 (unskilled)
Service & Others	Up to 30% of the total	300
Harbour Craft	1 local to 9 foreign workers	S\$200 (certificated crew)
Domestic Workers	no limitation	S\$330 (non-certificated) S\$330 ÷ S\$345*

Source: <http://www.gov.sg/mol/November 1 1997>.
Note: * mark indicates the new rate from April 1998.

As it shows, the limit for the manufacturing sector is 50 per cent, and the corresponding levy per worker is 330 Singapore dollars per month (if the dependency rate is below 40 per cent) and S\$ 400 if the dependency rate is between 40 and 50 per cent. In the service sector the dependency ceiling is kept lower, restraining the level of the foreign workforce, whereas for industries and occupational categories such as construction, marine and harbour workers, and maids the permitted dependency rate is higher. In effect the latter sectors would have difficulty coping without dependence on foreign labour.

As a general trend, during the 1990s the rate of dependence on foreign workers has gradually risen, and the labour market has come to depend all the more on the foreign workforce. At the start of 1996 the number of foreign workers was 350,000 (19.4 per cent of the workforce in 1996), and by October 1997 it had reached 450,000 (25 per cent of the workforce). This is quite a high dependency rate by comparison with Japan, the Republic of Korea, Taiwan and China. It is attributable to employment in the construction industry and of foreign domestic workers (<http://www.gov.sg/mol/Nov 4 1997>). In these forms of employment the foreign worker levy was due to be raised in April 1998 (See Table 1).

Extension of retirement age

In response to the problem of labour shortage there are also measures, in addition to the introduction of foreign workers, to make more use in the labour force of older and women workers.

For older workers there are measures to extend the retiring age and to bring back into the workforce those who have left employment. In April 1993 a system providing for "Retirement Age (Exemption) Notification" (RAEN) was introduced under the Retirement Age Act, and in September 1996, the Back to Work Programme was announced, aimed at bringing workers back into employment.

Under Section 4 of the Retirement Age Act “Employers may not dismiss an employee on grounds of age if the latter has not reached the age of 60 or other specified retiring age”, and appropriate penal regulations apply in the case of violation of this rule. On the other hand, the RAEN exempts certain categories of occupation or employer from the general rule. Until very recently the retiring age in many enterprises in Singapore was 55. However in the 1990s, as a result of efforts by the unions, the retiring age in many enterprises with unions has begun to be extended to 60. Nonetheless, since this extension is not generally occurring in enterprises where there is no union, the overall proportion of enterprises with 200 or more employees in which the retiring age is 60 is no more than 20 per cent. The smaller the scale of the firm, the lower the rate. It was expected that, before the end of the three-year plan established in 1991 for extending the retiring age to 60, the government would implement legislative measures which would apply to such firms without trade unions which did not implement such extensions of their own accord (Business Times, Nov 23-4 1991). In fact, the extension was not adopted as widely as expected by the government and unions. The Retirement Age Act mentioned above was the consequence of this.

However, the trend to extend retiring age did not come to a halt. In July 1997 the Minister of Labour, Dr Lee Boon Yang informed Parliament that the current retirement age of 60 would, with effect from January 1999, be raised to 62. At the same time, it was announced that in order to lighten the burden on employers of workers over 60, the rate of employers’ contributions to the Central Provident Fund (CPF) would be reduced. This proposal had been embodied in the report to the government of a committee of government, unions and employers’ representatives in November 1995 (Straits Times, July 26 1997). If this revision of the law is made, the official retiring age in Singapore will, in the space of just over ten years, have been raised from 55 to 62.

The back to work programme

Efforts to make more effective use of the domestic labour force are not confined to older workers, but extend also to women. In particular there is strong emphasis on part-time working and on flexible work. The Back to Work Programme announced in September 1993, based on a tripartite initiative of government, unions and employers, is directed at the re-incorporation into the labour force of full-time housewives and retired older workers. After a six-month pilot programme, in April 1997 the weight given to these categories increased. The programme provides for education and training for re-employment. On agreement of a contract of employment, the costs of 35 hours of Core Skills Training provided by the Singapore Productivity and Standards Board or through in-firm training are met by the Skills Development Fund (S\$ 350 per trainee, of which S\$ 100 constitutes the trainee’s allowance) (<http://www.gov.sg/mol/3> September 1997).

Related to this development, in September 1996 the Singapore government established a set of detailed rules governing conditions of employment, the Employment (Part-time Employees) Regulations, defining part time work contracts of up to 30 hours per week and making provisions for contracts of employment, holiday working allowances, overtime payments, paid leave, sickness, and maternity allowances.

Increasing value added and development of human resources

There is also a qualitative aspect to the shortage of human resources. This is particularly important for strategies to increase the amount of value added in the economy.

This problem was already a factor when in 1979 the SDLA was passed and the SDF established. As mentioned above, technical training has been promoted with the co-operation of Japanese, French, German and other multi-national firms, and the NWC in its annual guidelines has urged expansion of employee skill development. For example, the 1992 NWC guidelines called for firms to make investments in line with “a national target²⁸ of 4 per cent of annual wages to be allocated to employee skill development”. According to Heng (1992), “annual spending per employee on training” by firms “in Singapore is only one-tenth of Japan’s and one-third of America’s”. The rationale for such a national target can be understood in the light of firms’ claims that there is relatively little incentive for them to initiate employee training.

Since firms invest insufficiently human resources, education in the school system and other public training providers is being enhanced. Singapore has only two national universities, the National University of Singapore formed by amalgamation of the University of Singapore and Nanyang University in 1980 and Nanyang Technological University founded in 1991, though derived from the former Nanyang Technological Institute, founded in 1981. However both of them, particularly NTU, have a strong business orientation. Of the 6,257 graduates of NUS in 1996, 1,784 were in science, 736 in engineering; and of NTU’s 3,402 graduates in that year, 1,160 were in engineering, 241 in computer engineering, and 63 in materials engineering (cf. 1996 Singapore Yearbook of Labour Statistics: 111-3, 125-6).

In addition to these two universities, Singapore has four polytechnics with an important role in professional training: Singapore Polytechnic, Ngee Ann Polytechnic, Temasek Polytechnic, and Nanyang Polytechnic. These are institutes of advanced education at a slightly lower level than the universities which provide training for mid-level technical and executive personnel. The numbers graduating from them in 1996 were: for SP 5,164 (of whom 1,997 in engineering), for NAP 3,855 (of whom 1,997 in engineering), for TP 1,214, and for NP 2,117, a total of 12,350. According to Takashi Kitagawa of Ishikawa Skill Development College, who worked at NP (founded in 1992) from 1994-96, the graduates in the four faculties of Engineering, Business Management, Health Science and Information Technology received diplomas in a total of 17 courses. Generally speaking, education in Singapore’s polytechnics has a strongly pragmatic character, clearly aimed at fostering national prosperity and oriented towards advanced technology and the development of creativity, and closely linked to in-company training practice. Compared with Japan, practical subjects are emphasised, and there is close co-operation with businesses. For example, at NP product development is carried out on behalf of firms. In addition, as part of the third-year student projects eight weeks’ practical training in a firm is required (Kitagawa 1996: 25-30).

There are in addition to the polytechnics, numerous public (e.g. the Occupational Health Centre, Construction Industry Development Board, Singapore Productivity and Standards Board, Institute of System Science) or non-profit making (Singapore Institute of Management, Singapore Institute of Human Resource Management) specialised training institutions.²⁹ Of these, the SPSB is under the authority of the SDF. In 1995-96 the SDF provided funds to a total of 9,883 companies and 461,651 places of employment, to the total value of S\$ 62.2 million.

²⁸ Between 1990 and 1995 training costs rose strikingly from 2 per cent to 3.6 per cent of wages. Currently one employee in three enjoys education or training opportunities each year; cf. 1997 *NWC Guidelines*: 4.

²⁹ For profiles of these training establishments and figures on trends in graduate numbers, see 1996 Singapore yearbook of Labour Statistics, 119f, 137f.

There is also a number of Institutes of Technical Education for blue-collar workers who have completed secondary education but not proceeded to university or a polytechnic. There are currently 10 of these institutes in different districts, comprising re-organised and expanded versions of the VITB. "As a post-secondary institution, the ITEs' primary aim is to establish a pool of skilled manpower to support Singapore's economic development" (1996 Yearbook, p.117). In 1996 5,881 secondary school graduates completed ITE full-time courses or apprenticeship courses, and a further 17,132 trainees who were already in employment completed part-time skill development programmes, and 29,182 more already employed trainees completed courses in continuing education (1996 Singapore Yearbook of Labour Statistics: 121, 133-5). It may be noted in passing that there is a tripartite government-union-management consultative committee concerned with the management of the ITEs. Here again one may discern a kind of corporatism at work.

In addition, a new Adult Co-operative Training Scheme was introduced in January 1993. This is aimed at training semi-skilled and unskilled workers between 20 and 40 in the metal-working, mechanical, electrical and electronic industries to qualify for level 3 of the National Technical Certificate (NTC-3). Under this programme, trainees take part in an Apprenticeship Course involving practical training at the workplace, the full cost being at the employer's expense. However, on the attainment of NTC-3 by a trainee, a subsidy of up to S\$ 1,000 is payable by the SDF (Straits Times, November 7 1992).

It may thus be seen that in Singapore human resource formation is seen as an important policy concern. It is dealt with less by "Japanese-style" methods of voluntary in-company OJT than by public providers such as the two universities, four polytechnics, ten ITEs and other public or non-profit-making training organisations which cover technical skill training from high-tech human resources to low-skilled technical workers; and that a central role is played by the attainment of educational qualifications and national skill certification.

Job placement and unemployment insurance

A brief word may be said in conclusion about job placement. The Work Permit Department of the Ministry of Labour regulates the activity of employment agencies under the Employment Agencies Act which entered into force in 1959. In 1995 there were 795 employment agencies, of which 181 had been established in the course of that year and 614 had continued in operation from the previous year. In the same year 68 agencies closed and 2 had their permits revoked for contravention of regulations. In addition 63 agencies received warnings on grounds of inappropriate activities.

Apart from the private agencies, Singapore possesses public employment offices which offer advice and job placement assistance to unemployed workers or workers laid off in the course of company re-structuring (retrenched workers). In 1995 job placement assistance was provided for 4,532 applicants of whom 532 found work (SMOL 1995: 49-50).

At present there is still no system of unemployment insurance in Singapore. Important factors in this are the facts that as already seen, Singapore enjoyed full employment from an early stage, and that the Central Provident Fund (CPF) has existed since 1955 as a general safety net.³⁰

³⁰ The CPF is based on a system of compulsory saving introduced in 1955 as social insurance for workers' old age, disability, and related purposes. A fixed proportion of wages must be contributed by employer and employee, and may be used for housing finance, medical costs, etc., and the sum saved may be drawn in full on reaching the age of 55, losing the ability to work through disability, or leaving Singapore permanently. The accumulated savings fund plays an extremely important role as a basic source of finance for social and economic development. Since July 1, 1994, and up to the age of 55, the proportion of wages which workers and employers are required to pay is 20 per cent respectively (up to a maximum of 1,200 dollars), yielding the very

Summary

- (1) The nature of Singapore's labour market problems changed radically at the start of the 1970s. The former worry of unemployment receded, and concern turned to labour shortages. This was attributable to the success of export-oriented industrialisation (EOI). Full employment was achieved as early as 1972. From then on the basic problem has been one of qualitative and quantitative labour shortage. Moreover, since the late 1970s the national objective of aiming for high added value has given even greater importance to human resource quality. For a country whose main resources are human ones, the effective solution of these problems is a prime policy concern.
- (2) Quantitative labour shortage leads to pressure for wage rises. For Singapore, which has followed a strategy of relying on foreign investment for industrialisation, this is a matter of serious importance. The government set out to restrain and control this pressure by removing hostile trade unions and encouragement and "enlistment" of co-operative ones, and by involving the latter unions in a kind of corporatism. From 1972 onwards the establishment of the NWC, incorporating leaders from government, unions and management, gave this approach strong authority.

The NWC makes annual recommendations to the government, not only regarding rates of wage increases in line with economic performance, but on labour market policies generally, including the promotion of a "flexible wage system", diverse skill development for employees, and adaptation to labour shortage by fostering the use in the workforce of older and women workers. These recommendations are not legally binding, but carry strong effective weight.

- (3) Quantitative labour shortage problems have been addressed by limited introduction of foreign workers into the workforce, and by strategies to make use of older and women workers. The former approach involves a control based on the level of demand, by means of ceilings (by industry or job category) on the proportion of foreign workers allowed, and by the foreign worker levy, which prevent an unrestricted supply. Even so, dependence on foreign workers generally has reached the 25 per cent level.

With regard to older workers, the approach is one of extending the age of retirement. From 1999, if the retiring age is raised to 62, Singapore will have raised the retiring age from 55 to 62 within a space of ten years. With respect to women workers attention has been given to facilitating part-time work, and attempts to develop appropriate legislation have been gathering speed in recent years.

It is noteworthy that such policies to deal with quantitative labour shortage problems have been determined through a policy-making system of a national corporatist kind, centred on the NWC.

- (4) The qualitative labour shortage problem is serious. Singapore's vocational education and training (VET) system includes two universities, four polytechnics, 10 ITEs, public and non-profit-making training bodies, and training organisations based on foreign investment in association with the EDB; in addition there is the SDF which involves a system of compulsory levies on businesses and subsidies. There are gaps in the provision of human resource development within companies, and the government and public training bodies therefore have an important role to play.
- (5) Job placement services are provided not only through public agencies but on a large scale by private businesses. It is also worthy of note that Singapore has no system of unemployment insurance. This reflects not only the unusual role of the CPF as a general system of social insurance, but also - and to a large extent - the fact that Singapore suffers from quantitative and qualitative labour shortages.

The above all points up the fact that Singapore has extremely active labour market policies.

- (6) Several points emerge from a comparison with Japan: (a) In Japan one may also observe the emergence of a macro policy formation and decision-making system which may be called "a loose administrative corporatism" (Inagami et al. 1994; Inagami 1996), but there is no body with the comprehensive function of the NWC. A wage control mechanism operates (Soskice 1990; Sato 1997), but there is no substantive incomes policy as in Singapore; (b) when the problem of labour shortage surfaced in Japan in the later 1980s the view that foreign unskilled workers should be introduced into the workforce was much discussed, but these demands were effectively rebuffed by the revision of the immigration law in 1990.³¹ Foreign workers account for only about 1 per cent of the total labour force. Both qualitatively and quantitatively the situation differs from the Singaporean case; (c) There is a major difference between Singapore and Japan in the roles played by firms in human resource development. In Japan, particularly in large firms, there is spontaneous long-term investment in human capital on a large scale. In Singapore on the other hand the government and a number of public training bodies play a more important role. In Japan there is no system of compulsory employee training levies along the lines of the SDF; (d) In Japan, soon after the Second World War, an unemployment insurance system and unemployment relief measures were adopted in the face of massive unemployment, whereas in Singapore there is still no unemployment insurance system.

³¹ For more precise details, see Inagami (1992).

3. Labour market policies in Malaysia

The Malaysian federation became independent of Britain in 1957. Singapore was, until it separated in 1965, a component state of the Malaysian federation.

Malaysia has been slower than Singapore to shift to a strategy of export-oriented industrialisation underpinned by foreign direct investment, and low-cost labour-intensive industries remain comparatively important.

Other differences between Malaysia and Singapore include the fact that Malaysia is rich in natural resources and primary commodities, and the plantation sector of the economy continues to be an important part of the whole. In addition, unlike Singapore, in Malaysia inter-racial tension plays a significant part in economic and social policy formation and administration.

3.1 Industrialisation, labour market problems, and labour policies

From state-led ISI to foreign-capital-led EOI

Malaysia's industrialisation began as import substitution (ISI: import substitution industrialisation). This policy was promoted under the New Economic Policy (NEP: 1969-90) which was initiated after race riots in 1969, and it continued until the mid-1980s. This policy was aimed at "Elimination of poverty" and "Social re-structuring", notionally without regard to race, but in reality its basic character is and continues to be one of giving preferential treatment to Malays, or "Bumiputras" ("sons of the soil"). For instance, the policy prescribed that, in all areas of the economy, economic entities (such as individual enterprises) should raise the proportion of Malays in the workforce to at least 30 per cent to bring the numbers more nearly into line with the population at large; similarly the policy aimed at ³² raising the proportion of productive capital in Malay ownership from 2.4 per cent in 1970 to 30 per cent in 1990 (Sakai 1993:8-14; Kuruvilla 1995a:43). An industrialisation strategy of import substitution was given central importance.

However this strategy did not function as intended in the early 1970s. This led to passing the Industrial Co-ordination Act in 1976 and strengthening the Ministry of Trade and Industry. The government also further reinforced its industrial management, with a view to achieving the objectives of the NEP, by setting up the Bumiputra Investment Fund and planning the Petroleum Development Act. These thoroughly interventionist policies had a strongly negative effect on the willingness of local private firms or of foreign capital to invest, and the rate of investment by the private sector as a proportion of GDP fell well below the 12-14 per cent level of the early plans to 3 per cent. In 1980, the Minister of Industry, Dr Mahathir Mohammad, set up the Heavy Industries Corporation and began to promote import substitution involving heavy industries. The government started a number of joint projects with foreign capital, such as the PROTON (Malaysian Small Car) project and the Trengganu Steelworks. However, a

³² These major targets continue in the Seventh Malaysia Plan. For the present situation, see Seventh Malaysia Plan: Tables 3-2, 2-3, 3-4, 3-5 and 3-6.

recession in 1982-85 had a severe impact, and the results of the heavy industrialisation plan (HIP) did not match up to expectations. Its legacy included a huge foreign debt.

In order to repay this debt the government was obliged to change course and adopt a policy of export-oriented industrialisation. From September 1986 onwards the government announced in rapid succession a number of policies giving preferential treatment to foreign investors. To a substantial extent the change of policy meant that the NEP policy targets had been shelved or abandoned. Among the changes made were tax reductions for multinational firms and the exemption of these firms from various laws. As a result foreign direct investment in Malaysia rose dramatically in the latter half of the 1980s. Investment from Japan and NICs, rather than from the United States, increased rapidly. The predominant tendency was one of low-cost labour-intensive EOI, notably involving industries such as electric and electronic goods, textiles and chemicals. The multinationals made a major contribution to Malaysian EOI.

The government also began to privatise state-run industries, a trend which accelerated in the early 1990s. The background to this was that the growing debts accumulated by these industries had reached a level at which the government's fiscal resources could no longer accommodate them (Kuruvilla 1995a:44-6; Sakai 1993:17-24).

Looking back at the NEP era from the point of view of labour market policy, two periods can be distinguished. The first was during the ISI phase when NEP policy objectives, including a concrete target for the ethnic structure of the workforce throughout the economy, extending right down to the level of the enterprise, and requiring an ethnic balance reflecting the ethnic structure of society (employment re-structuring), in concrete terms posed a labour market problem.

This was because, no matter how prominent the target, "Virtually, 'there were not enough qualified Malays to meet the 30 per cent employment target in each firm, and the policies did not result in the development of entrepreneurship'" (Kuruvilla 1995a:43). The employment re-structuring which was desired was not something which could be achieved automatically through state-led ISI. "Under the NEP the importance of human resource development for industrialisation was sufficiently emphasised, but in the policy framework as a whole it did not carry so much weight" (Sakai 1993: 77). A strong awareness of the importance of human resource development policies began with the NDP (National Development Policy 1991-95) and the Seventh Malaysia Plan 1996-2000.

The nature of labour market problems underwent qualitative changes in the later 1980s, along with the progress of EOI. One factor was the sharp fall in the rate of unemployment from 6.2 per cent in 1980 to 3.8 per cent in the early 1990s. In this new phase, foreign investment rushed in and became a locomotive force for the industrialisation of the Malaysian economy, "but the tightness of demand in relation to supply led to pressure for wage rises" (Economic Planning Agency 1997:127). From the start of the 1990s Malaysia achieved full employment, leading to a strong awareness of the need to control the consequent pressure for wage rises on the one hand, and of the importance of human resources for a high value-added capital-intensive economy on the other. This shift is symbolised by the change in March 1990 of the name of the Ministry of Labour to "Ministry of Human Resources". Comparing the state-led ISI period and the foreign-capital-led EOI period, one can thus see a major qualitative change in the nature of labour market problems. The watershed was the late 1980s, since when the Malaysian labour market and its problems have come to increasingly resemble the situation in Singapore in that respect.

To recapitulate, during Malaysia's initial phase of industrialisation, that is to say during the period up to the mid-1980s of state-led ISI, the most basic objective of the NEP was "re-structuring of employment", and this was the most important labour market policy issue. Consequently the "solution" of this problem was seen as having prime importance. Likewise during the second phase, of foreign-capital-led EOI, the character of labour market problems changed, with labour shortage and wage restraint in the forefront, but that only tended to increase the importance attached to solution of the problems. This demonstrates the central importance which the solution of labour market problems has had, and continues to have, for the Malaysian government and for Malaysia's society and economy.

Trade unions and industrial relations

We turn now to the nature of government policy towards trade unions and industrial relations during these two periods.

First let us give some consideration to the trade union situation in Malaysia. As of 1996 the overall union membership rate was 8 per cent, and major unions include the plantation workers (NUPW), teachers (NUTP), commercial workers (NUCW), bank staff (NUBE), and transport workers (TWU). Looking at union membership rates by industrial sector, rates are high in the electric power and water supply industries and in the plantation sector, and low in manufacturing. They are high in government and state-run industries and low in the private sector (Sakai 1993:131-2; Arudsothy and Littler 1993:115; Krishnan 1997:11). The MTUC was earlier the only "national centre" but in 1989 a new "national centre", the Malaysian Labour Organisation (MLO) was set up, centred on the NUBE, following criticism that the MTUC had "become politically slanted". The MLO was recognised for government registration in 1990³³. Thus if one also includes the public sector Congress of Unions of Employees in Public Administration and Civil Services (CUEPACS) Malaysia had by the early 1990s three "national centres". However, in May 1996 the MLO was re-merged with the MTUC.

The MTUC is certainly not very powerful. It has no influence on wage determination. It concentrates its energies on worker education and urging reform of labour laws, and in that sense can be seen to be involved in "political" activity. When one considers that Malaysian trade union law prohibits unions from taking part in political activity, the very existence of MTUC seems contradictory. As this example suggests, the Malaysian government has favoured a policy of "Balkanisation of the trade unions" and its posture towards the unions is one of control.

This orientation towards control of the unions has manifested itself in a number of ways: by withholding recognition from "national centres" which cut across industry or occupational lines, by the prohibition on political activity, by pressures exerted through the laws on registration, by regulations on strikes, by limitations imposed on collective bargaining (for example areas which cannot be negotiated include transfers, promotions, job cuts and lay-offs because of the employer's circumstances, and so on), and by a frequently tolerant attitude toward anti-union behaviour by employers (Kuruville 1995a:47-8; Kuruville 1995b:126f., 138).

³³ Under Clause 72 of Malaysia's Trade Union Law, union federations must be based on similar industries or kinds of work, and union federations which cut across industries or occupational categories are not legally recognised. Therefore, unlike MLO, MTUC is not a union within the terms of the Trade Union law. Since MLO was set up with government backing, it is widely regarded as a "Pan-Malaysian" kind of puppet union (cf. Arudsothy and Littler, 1993:113 and 125).

What was the impact on industrial relations policy of the policy shift of the later 1980s towards EOI and actively encouraging foreign investment? In general it reinforced the existing basic posture of restraining the unions from obstructing economic development, by adding the motive of protecting the interests of foreign capital. First, measures were taken to exempt businesses in Export Processing Zones (EPZs) and in "Pioneer" industries from labour law and to offer them lower tax rates. This of course meant lower costs for the firms concerned. Secondly, despite repeated calls from the unions, Malaysia still has no minimum wage law, except for workers in the hotel industry. Thirdly, a legislative change in 1988 led to a substantial reduction in overtime pay. Fourthly, in line with the wishes of foreign investors, the government does not recognise the principle of equal pay for equal work. Fifthly, multinational companies are fully or temporarily exempted from the application of labour laws. Sixthly, unions are substantially excluded from the electronics and some other industries in the export sector³⁴.

In addition to these measures for firms with foreign capital and regulations on working conditions, direct intervention and regulation of the unions has been strengthened. Apart from the legal obligation on unions to obtain registration (and thus possibly to be refused registration), and the legal recognition given as described above to the MLO, the Look East Policy since 1980 has promoted Japanese-style enterprise unions³⁵, a trend which has gathered force since revision of the law on trade unions in 1989. Thirty per cent of unions, particularly in the manufacturing sector, are now enterprise unions, and the proportion is expected to grow (Arudsothy and Littler 1993:129). Thus although there has been a major change in the country's industrialisation strategy from state-led ISI to foreign-capital-led EOI, the basic policy stance towards unions and industrial relations has not altered. There has rather been a strengthening, in the cause of promoting exports and favouring foreign investment, of the orientation towards government control of working conditions and repression of the unions. In short, the basic labour policy posture of the government is one of maintaining export competitiveness, especially by foreign firms, by strong control of the unions and of working conditions. This is qualitatively different from the national corporatism noted above in Singapore.

However, it cannot be expected that the strategy of low-cost labour-intensive foreign-capital-led EOI can continue indefinitely. As the "Seventh Malaysia Plan (1996-2000)" recognises, the economy has entered a new phase of development based on capital-intensive, high-tech, knowledge-intensive industries, and "the major challenges (of the Seventh Malaysia Plan) will be to provide sufficient skilled workers, promote capital deepening and create a more technology-oriented culture to effect the structural transformation towards a productivity-driven economy as well as embark on world-scale operation" (Seventh Malaysia Plan:5,30). Though the overall strategy may remain EOI, as the Malaysian economy moves into this new phase with full employment, there is a possibility that the character of labour policies will change (cf. Kuruvilla 1995a:61).

³⁴ From 1974 to 1988 the establishment of unions in the electronics sector was prohibited. In October 1988 this prohibition was lifted and the MTUC set up the National Electronics Workers union (NEW), but when the new union applied for registration it was refused on the grounds that "In this sector only company unions are permitted". This led to a long-drawn-out dispute involving the ILO. However in April 1997 the MTO dropped its previous opposition to company unions and accepted the government's policy (cf. New Straits Times, April 15 1997).

³⁵ In the case of company unions, unlike the "traditional" pattern of Malaysian collective industrial relations (whereby even where negotiations are held between the branches at each enterprise of an industry-wide union and the management of the enterprise, there is nonetheless, as in the case of the plantation sector, a strong influence of industry-wide agreements on the bargaining at a local level), collective bargaining takes place within the company. To that extent, even within the same industry differences in company performance can give rise to differences in working conditions (cf. Sakai 1993:126-7).

3.2 Labour shortages and human resource development policies

As already noted, the strategy of foreign capital-led EOI from the late 1980s brought the Malaysian unemployment rate down sharply, and full employment was achieved by the start of 1990. However, the consequent labour shortages and rising pressure for wage rises³⁶ threatened the international competitiveness of multinationals which had set up in the country, and even raised the possibility that they might leave. This led to strengthening of the controls on unions and working conditions, in order to preserve the advantages of low costs³⁷.

However, in the face of labour shortages, as Malaysia becomes a developed country during the period up to 2020 (cf. Vision 2020, 1991), these low costs cannot be easily preserved in a balanced economy. Thus, as proclaimed in the NDP and Seventh Malaysia Plan mentioned above, the need for new human resource development policies becomes a matter of increasing concern.

Policies towards labour shortage

One aspect of the problem which the government must deal with is the quantitative labour shortage. In part this is addressed by the limited introduction of foreign workers (Seventh Malaysia Plan:7). Already by the start of the 1980s economic growth had led to a shortage of plantation labour, and from the mid-1980s this demand was met by a large influx of illegal foreign workers, especially from Indonesia. The Malaysian and Indonesian governments reached an agreement in 1984 (the Medan Agreement) on the recognition of employment of Indonesians in agricultural and domestic service. However, the extent of the labour shortage exceeded the government's expectations, and a large number of illegal foreign workers entered the plantation sector. Their numbers rose during the 1980s to a figure which in 1990 probably exceeded one million³⁸ in all, distributed roughly equally between peninsular Malaysia on the one hand and Sabah and Sarawak on the other (Sakai 1993:102f). According to the Malaysian Census, the number of immigrants grew to 119,000 in 1975-80, and the much larger figure of 300,000 was reached in 1986-91. Migrants came from Indonesia, the Philippines, Thailand and elsewhere. A recent estimate puts the total number of foreign workers at 2 million, of whom 700,000 (almost all unskilled workers) are in the construction industry alone (cf., Financial Times, January 5 1998). This figure of 2 million represents 23.5 per cent of the 8.5 million total number of employees.³⁹ This proportion is close to the percentage in Singapore.

As a short-term measure in response to the labour shortage⁴⁰ and influx of illegal foreign workers, in 1992 the government permitted the employment of foreign workers in the plantation sector, construction, manufacturing (for skilled and semi-skilled workers,

³⁶ In fact the strength of demand for labour has increased the upward pressure on wages. The nominal average annual wage of manufacturing workers rose from 7,670 ringgit (US\$ 2,843) in 1989 to 10,808 ringgit (US\$ 4,118) in 1994. This rate of increase has exceeded the rate of increase of labour productivity. See Economic Planning Agency (Japan) 1995:106, 111.

³⁷ In the first half of the 1980s the unit labour costs of Malaysian manufacturers fell in relative terms, and as a result the country rose, in a comparison of 22 countries, from 10th place in 1990 to 7th place in 1993 (cf. Seventh Malaysia Plan:116).

³⁸ In discussing the migrant worker issue, the states of Sabah and Sarawak cannot be lumped together with peninsular Malaysia. Both states have their own migration bureaux with autonomous powers.

³⁹ The deputy home minister, Tajol Rosli Ghazali, has stated that, in view of the perceived risk that foreign workers who have lost their jobs because of recession may become involved in crime or similar problems, consideration is being given to the repatriation of such foreign workers (cf. Financial Times, January 5 1998).

⁴⁰ The labour shortage is exacerbated by the movement of Malaysians abroad to work in Singapore, Australia, Japan or other foreign countries. On this point see Pillai (1992), Sakai (1993:119f.).

professionals and technicians), and in a variety of service sectors. It also abolished work permits for foreigners with the right of permanent residence (Seventh Malaysia Plan:106-7, 111). However, this is regarded as a purely short-term step, since in the medium term the government envisages that with the development of a capital-intensive, high-tech industrial and occupational structure the demand for foreign workers will be reduced. In practice this policy of legally admitting foreign workers is far from stable, and the policy was stopped in 1994.

If one tracks the course of Malaysian policy on foreign workers from the start of the 1990s⁴¹ chronologically, one may note a variety of measures. From January 1990 new "labour importation" from Indonesia was stopped. From November 1991 registration was instituted for illegal foreign household maids (registration period extended in June 1992). From July 1992 workers from Indonesia, the Philippines, Bangladesh and Pakistan were permitted to work in the manufacturing and travel and recreation sectors. From January 1994, with the exception of these (important) sectors, the new entry of skilled and unskilled workers was prohibited. In August-December 1996 registration was introduced for illegal workers from Indonesia, Thailand, the Philippines, Bangladesh and Pakistan. From January 1997 illegal Indonesian workers were repatriated. From the same month new entry of foreign workers other than domestic maids was prohibited (by this time the number of illegal foreign workers in peninsular Malaysia was 555,000). In August 1998 domestic maids were added to this complete prohibition of new entry. In September 1997 new entry was again permitted for domestic maids and hotel employees (Kassim 1997).

From these facts it may be seen that the Malaysian government takes a basically negative attitude towards the admission of foreign workers. But Malaysia already has a larger number of foreign workers than any other ASEAN country. The issue of attendant social problems, such as crimes committed by foreign workers, has attracted attention. This has caused the government's policies on foreign workers to change bewilderingly fast in a very short space of time.

Thus, as in Singapore, measures are being sought to promote better use in the labour force of older and women workers (including part-time employment and extension of retiring age).⁴² It has been decided to offer tax incentives to firms which improve the working environment, provide appropriate transport assistance, or offer in-company child-care facilities or OJT for women and older workers. (cf. Seventh Malaysia Plan:111, 127; New Straits Times, November 29 1993).

Human resource development

As Malaysia entered the 1990s it reached a second phase of EOI. As a concomitant, there was increasing concern regarding the shortage of skilled workers, technicians, R&D workers and scientists⁴³, and the question of developing human resource policies appropriate to a high-value-added, high-tech, capital-intensive economy assumed growing importance. As already noted, in 1992 the Ministry of Labour changed its name to the Ministry of Human Resources.

⁴¹ The employment tax on foreign workers was doubled across the board in January 1996. For example, in the case of skilled workers in the manufacturing sector the increase was from 75 to 150 ringgits per month (New Straits Times, December 31 1995).

⁴² Under the 1992 revision of the employment law, the upper limit on permitted overtime was increased from 64 to 104 hours per month.

⁴³ On the rise in the turnover rate among skilled workers which has accompanied the labour shortage, see for example Seventh Malaysia Plan: 104, Pillai 1992.

In the early 1990s, along with establishment of new vocational and technical schools and other reforms⁴⁴ to secondary and post-secondary education, plans were made in particular for the enhancement and expansion of tertiary education, especially in science, medicine, engineering, and technical-related courses. Existing institutions were enlarged and new universities established (for example, Universiti Malaysia Sarawak, Universiti Malaysia Sabah, and four new polytechnics), and the number of people achieving university degrees, nationally certified diplomas, and professionally licensed certificates increased markedly. Between 1990 and 1995 numbers grew by 68.6 per cent, from 10,130 to 17,080, for certificate students, by 46.6 per cent, from 32,020 to 46,930, for diploma students, and by 53.3 per cent, from 58,440 to 89,600 for degree students. In each case the rate of growth was very substantial (Seventh Malaysia Plan:306f., 312-315).

In addition, a number of training establishments were set up in the early 1990s with the purpose of training high-level technicians (the German-Malaysian Institute, the Malaysia-France Institute, the Japan-Malaysian Technical Institute). Moreover, in September 1992 a system of skill proficiency certification was established, and the Skill Certificate of the national vocational training committee (MVLK) was extended to jobs in the service sector and skills developed in in-company training were brought into the certification system (New Straits Times, July 1 1992). A new system of apprenticeship involving OJT was also introduced.

These reforms primarily involved public bodies. The development of human resources continues to be principally a task carried out by the government and public training organisations. It is recognised that this fundamental character is not liable to change (cf. Seventh Malaysia Plan: 19, 128-9).

On the other hand, emphasis has begun to be placed also on the importance of the role to be played by the private sector in human resource development. A representative instance is passage of the Human Resources Development Law (1992). This corresponds to the Singaporean SDF, and requires employers in the manufacturing sector with more than 50 employees (from 1995 it extends to firms with more than ten employees, and to the service sector as well) to contribute one per cent of each employee's pay in the form of a Human Resources Development Levy (New Straits Times, October 15-6; December 12 1992). The fund thus financed (HRDF) is used for technical re-training or further training, depending on the firm. Between 1993 and 1995 the number of employees receiving training provided through this fund reached a total of 639,000 (New Straits Times, July 7-8 1997; Seventh Malaysia Plan:320). Another case is the Private Higher Education Institutions Act of 1996. This provides not only for the establishment of degree granting institutions by private firms but also for the of "branch campuses" set up by foreign universities. An example of the former is the establishment by Syavikat Telecoms Malaysia of Telecoms University.

As already noted, as Malaysia entered the second phase of EOI, the strong consciousness of the importance of human resource development policies led to increased attention to formulating such policies in the early 1990s. This lay behind the change of the former Ministry of Labour's name, the Human Resources Development Law, and the establishment of the HRDF funded by employers' contributions. Likewise the new apprenticeship system, reform of post-secondary education, the expansion and enhancement of tertiary colleges, the founding of new universities, the authorisation of private firms to set up higher education and training institutions and the reform of the skill certification system are all readily evident instances.

⁴⁴ See Seventh Malaysia Plan:303-310.

These were all moves by the government, but the private sector gradually began to take on a growing role.

In these developments, particularly the modelling of the HRDF on the Singaporean SDF, but also in policies to raise the number of holders of degrees, diplomas and certificates, and in the use of assistance from Germany, Japan and elsewhere in human resource development, there was a strong element of learning from the prior experience of Singapore.⁴⁵

Labour mobility and job placement

Labour shortage leads to an increase in labour mobility. In the early 1990s "job-hopping" (by foreign as well as domestic workers) became a prominent phenomenon. "Both foreigners and Malaysians readily change jobs for as little as one ringgit. Since the average worker's monthly pay is 400 ringgits, this represents no more than 0.25 per cent of pay. Since employers are desperate to hang on to their existing workers, this obliges management to accept high wage demands. The result of wage negotiations in 1996 was a rate of wage rises of 10-14 per cent. Since prices rose by only 3-4 per cent this means a real wage increase of 10 per cent". In such conditions many employers affected by labour shortage are dependent for labour supply on middlemen and brokers (Krishnan 1997:6-9).

As of March 1997, 783 such job brokers were registered with the Malaysian ministry of human resources, of which firms licensed to find placements for foreign maids did not exceed 159. However the need to revise the law has come onto the agenda in the light of the difficulty of suppressing exploitation by such middlemen, including registered ones (New Straits Times, June 30 1994; March 14 1997). There is also a plan to set up a "Vocational Training Information System" (VOCATIONS) in the near future, which would involve the government in maintaining information infrastructure on the current labour market (cf. Seventh Malaysia Plan: 131). At any rate, by comparison with the human resource development discussed above, the job placement function appears to be strikingly "lagging".

The Employees Provident Fund (EPF)

As is the case in Singapore, Malaysia has no unemployment insurance system, but it does have the EPF which closely resembles the NPF. The number of persons in this compulsory savings system (of whom those currently contributing currently constitute about one half) exceeds 8 million, and the total funds accumulated as of June 1997 were 120 billion ringgit and are expected to rise to over 200 billion ringgit by the year 2000. As of 1996, employees were required to contribute 11 per cent and employers 12 per cent, thus making a total of 23 per cent compulsory savings. Management of the fund is not entirely public, but it is mainly invested in government securities, loans to public projects and public corporations, and good quality stable equities quoted on the Kuala Lumpur stock exchange. Disbursements from the fund are made up of old age pensions (60 per cent), housing purchase costs (30 per cent) and medical expenses (10 per cent). The fund enjoyed a rate of return of 7.5 per cent in 1995 and 7.7 per cent in 1996 (New Straits Times, September 20 1994; January 14 1995; October 28 1995; 2 June 1997).

⁴⁵ There are a number of measures which have been taken in Malaysia where a strong resemblance to the Singaporean example may be discerned: for example, in the response to labour shortage by the admission of foreign migrant workers, and the tax imposed on employing them, and by the promotion of part-time employment and postponement of retirement age to ensure more participation in the labour force by women and older workers, as well as in the diffusion of "flexible wage systems" and in the EPF (Employees Provident Fund).

Summary

- (1) The adoption of the NEP arose out of the race riots of 1969. One of its objectives, in the context of plans for economic growth, was the elimination of poverty. Another strand was the Bumiputra policy of seeking a re-structuring of employment which corresponded to the ethnic composition of the population. The basic approach to pursuit of economic growth was one of state-led ISI.

The NEP achieved clear results in terms of employment creation, but was less obviously successful in terms of "re-structuring society and employment". In the early 1980s the development of heavy and chemical industries under the ISI policy led to the incurring of huge foreign debts, and in order to repay these debts Malaysia came, from the mid-1980s onward, to adopt a fresh strategy, one of EOI led by foreign investment.

Two distinct phases of the EOI policy can be identified: in the late 1980s the approach was one of low-cost labour-intensive EOI, whereas from the early 1990s onwards there was a shift of emphasis towards one of high value-added, technology-intensive and capital-intensive industrialisation.

- (2) During the state-led ISI period of the NEP, labour market problems included a continuing high average rate of unemployment and at the same time structural labour shortages which obstructed the achievement of "employment re-structuring", or in other words a rate of at least 30 per cent Malay employees in every enterprise. The main concerns of labour market policy at this time were the reduction of unemployment and employment restructuring.

However, major changes began to occur following the adoption of the foreign-capital-led EOI strategy. Unemployment fell and full employment was achieved by the start of the 1990s. Two policy issues emerged during the first phase of EOI, namely coping with the shortage of labour and keeping costs down. The former problems was addressed by the admission of foreign workers, abolition of the work permit system for foreigners with right of permanent residence, extension of legally permitted hours of overtime, activation of women and older workers in the workforce and the promotion of technology which could substitute for labour. Of these measures the one with most direct impact was the admission of foreign workers. During the 1980s the number of illegal foreign workers finding employment grew, and by the 1990s, after repeated "stop and go" changes of policy on the entry of these workers, their numbers had grown to a figure which may now be as high as 2 million (23.5 per cent of the total workforce). Major countries of origin include Indonesia, Thailand, the Philippines and Bangladesh.

Policies on keeping costs down owed much to the measures to favour the manufactured export sector, to which foreign capital was central, and to the related policies on industrial relations. Instances of this include tax reductions and exemption from labour law for the EPZs and "Pioneer" firms, refusal to introduce a minimum-wage law, and controls on the unions in the manufactured export sector. In addition to these measures to reduce costs by favouring foreign capital and controls on working conditions, the government also strengthened its direct regulation of, and intervention in, the trade unions. These measures were characteristic of low-cost, labour-intensive, foreign-capital-led EOI.

However, EOI cannot remain forever at this first stage. While retaining its foreign capital-led character, it is bound to move on to the next stage, which is capital-intensive and technology-oriented, and this will require more than a policy of simply preserving low costs. It calls for appropriate human resource development policies as a matter of

importance. This is the situation in which Malaysia finds itself in the 1990s, and indeed, since the start of the decade this has been reflected in the recognition accorded by the Sixth and Seventh Malaysian Plans and by Vision 2020 to the need, as a principal objective, to upgrade human resource development. The Ministry of Labour's change of name, the passage of the Human Resources Development Law, and the HRDF, financed by firms' contributions and government funds, are all signs of this. The HRDF in particular has had a significant impact on employee re-training.

In parallel with these measures were taken to improve the contribution of the education and training system, including reform of post-secondary education, the expansion and enhancement of tertiary colleges, the founding of new universities, the authorisation of private firms to set up higher education and training institutions, and the reform of the skill certification system. The government played a central role in these policies and plans, but the function of the private sector has gradually come to receive more emphasis. These measures can be seen in general terms as a response to the qualitative component of the labour shortage.

- (3) To sum up the overall picture, it can be said, first, that throughout the period and despite changing industrialisation strategies, labour market problems have had a central role in Malaysia's economic development policies.

Secondly, to speak in very schematic terms, until the 1980s these problems were thought to be the reduction of unemployment or elimination of poverty and the "re-structuring of employment" to reflect the country's ethnic composition, which still remains a basic policy objective. This "re-structuring" continues to be a historic peculiarity of Malaysia's labour market problems. However, circumstances underwent a change from the late 1980s onwards. From the start of the 1990s Malaysia had full employment (20 years after Singapore). This led to a shortage of labour. Under the EOI strategy this labour shortage posed problems of keeping labour costs down and finding ways to cope with the shortage. Serious attention also began to be paid to the qualitative shortage of human resources and the need to find ways to deal with this problem.

Thirdly, in the resolution of labour market problems in Malaysia, the government's role has consistently been central, but from the early 1990s the function of the private sector, including foreign firms, has gradually come to be emphasised more.

Fourthly, in the late 1980s, following a strategy of low-cost labour-intensive EOI, the government's existing interventionist and repressive stance towards the unions reached a peak. This is fundamentally different in character from Singapore's national corporatism. However as EOI entered its second phase in the 1990s some changes could be seen in this confrontational approach, in response to gradual recognition, shared by government, management and unions that human resources development were essential to Malaysia's economic progress in a world of globalization and intensified international competition.

Fifthly, Malaysia drew significantly on Singapore's experience in responding to labour shortage, revising the skill certification and public education systems and other policies to upgrade human resource development, as well as in introducing "flexible wage systems", and learned from Japanese examples in relation to such areas as production management and industrial relations.

4. Labour market policies in the Republic of Korea

As in the previous countries studied, in order to understand how Korean labour market policies have developed historically into their present form, it is helpful to examine first the changing nature of labour market problems. First, however, it is worth giving an outline of the nature and structure of labour laws in the Republic of Korea.

4.1 The system of labour law

General character

The following general points may be made about the general character of Korean labour law. First, although after the Second World War the Republic of Korea spent three years under American military government before gaining independence, there is practically no discernible influence of American labour law on labour law in the Republic of Korea⁴⁶, whereas Japanese influence is strong. "One cannot speak of Korean labour law without reference to Japanese labour law. Frequently the tendency in passing new labour legislation in Korea has been to take existing Japanese legislation as a basis and supplement it where appropriate, subsequently adding elements reflecting Korean circumstances⁴⁷ little by little" (Hayashi 1995: 35). Secondly, following the four major laws passed in 1953 (namely the Labour Standards Law, Trade Union Law, Labour Committee Law and Labour Disputes Mediation Law)⁴⁸, there have been frequent changes in government and in the constitution. The consequences with respect to labour law are particularly apparent in the case of the Trade Union Law and the Labour Disputes Mediation Law. This can be understood in the light of the geopolitical context. Since the country stood right on the edge of the Cold War fault line, the resulting tendency to emphasise the "threat from the North" and the importance of national security led to the imposition of strict laws on the unions until very recently.⁴⁹ As in the case of Taiwan (China), Korean labour law came to have a geopolitical role (Henderson and Applebaum 1992). Thirdly, whereas "Collective industrial relations followed an abnormal course", the pattern of industrial relations as far as individuals were concerned "came in general to move in the same direction as the general global trend, in increasing the degree of protection afforded" (Son 1995:204).

Thus, against a background of the strong influence of Japanese labour law, frequently changing legislation cast the geopolitical shadow of the Cold War on the legal framework of

⁴⁶ In contrast to the labour policies of GHQ in post-war Japan, "the US military government's policies towards labour in Korea were very negative by comparison with (America's) policies strongly favouring the fostering of industrial democracy in Japan" (Kim 1997:9)

⁴⁷ Of course the importance of the "late development effect" in this respect should not be underestimated. More specifically, see Hayashi (1995).

⁴⁸ Son writes of the 1953 legislation that "the labour laws ran ahead of economic maturity, and there consequently was from the start a gap between the model and the realities", and that it was "programme legislation", produced with a strong consciousness of the "demonstration effect". See Son (1995:203).

⁴⁹ For example, restriction of the three labour rights of public employees, denial of the right of industrial disputes to workers in major defence industries, and powers for government ministries to make their own interpretation of the law. However, the bans on political activities by trade unions and on plural unions were lifted under labour legislation in 1997.

collective industrial relations. The Japanese influence continued after the 1987 "Democratisation declaration" and the "great workers' struggle", whereas the effects accumulated during the Cold War years were greatly diluted by the extensive revision of labour law in 1997.

The legal framework

Looking at the order in which legislation was passed, the laws on three kinds of collective workers' rights (the Trade Union Law, Labour Committee Law, and Labour Disputes Mediation Law of 1953 and the Industrial Relations Law of 1981) and the law on working conditions (Labour Standards Law of 1953, Industrial Injury Compensation Insurance Law of 1963, and Industrial Safety Law of 1981) came early on. More recent legislation includes the Employment Policy Standards Law (1993) and the Employment Insurance Law (1993), as well as the Older Workers Employment Promotion Law (1991) and the Physically Handicapped Workers Employment Promotion Law (1990). Other laws include the Minimum Wage Law (1986), the Sex Equality in Employment Law, the Employment Stability Law, passed in 1967 and entirely revised in 1994, and the Vocational Training Standards Law passed in 1976 and amended in 1993. Labour law was extensively revised in 1997⁵⁰, and it is expected that a law on dispatched labour will be passed in 1998, so that the 1990s may be considered a "new era of labour law" in the Republic of Korea.

4.2 Economic development, labour market problems, and industrial relations policies

From "Excess labour supply" to labour shortage

Korean economic development began to get under way in the 1960s, following a strategy of state-led labour-intensive EOI. The government promoted and gave assistance to chaebol (family-owned corporate group) under family ownership and management. An important factor in this strategy was the Republic of Korea's low wage structure, made possible by the huge excess supply of labour from the rural villages and lower urban classes of society. In 1963 non-agricultural unemployment was as high as 16.3 per cent and in 1970 it still reached 7.4 per cent. Accordingly, employment promotion was a matter of industrial policy rather than labour market policy. Labour market policy was mainly concerned with establishing new vocational high schools and enhancing job placement services (Choi 1995:5).

This structural "excess" of labour supply began to change fundamentally in the mid-1970s. From then on some degree of tightness began to appear in the labour market. With the development of heavy and chemical industries and flow of workers overseas caused by the

⁵⁰ The main contents of the revised Labour Relations Law passed by the Congress in March 1997 are as follows. First, abolition of the ban on multiple unions; in other words, the way was open to move to multiple unions, immediately in the case of national centres and industrial unions and after a 5-year moratorium (i.e., in 2002) in the case of enterprise unions. Secondly, the principle of "no work no pay" was established, whereby employers were not obligated to pay wages during an industrial disputes. Thirdly, payment of wages to full-time union staff was prohibited with effect from 2002. Fourthly, a system of lay-offs was introduced. This system prescribed that, for adjustment lay-offs to be permissible, there should be "grounds arising from the stringency of business conditions", and the conditions that "prior consent of the labour committee" must be obtained was abolished. However, the stringency of business conditions includes merger, acquisition undertaken or change of ownership to prevent deterioration of business (Labour Standard Law, clause 31; Law 5510, promulgated 20 February 1998 - information provided by Oh Hak-Soo), Fifthly, acceptance of the use of substitute labour during industrial disputes. Sixth, re-introduction of the once-abolished working system in 1987. Seventh, strengthening of the position and authority of labour committee chairmen. Eighth, reforms limiting the period of validity of wage negotiations and collective bargain to a unified duration of two years. cf., JIL, Foreign Labour Affairs, no. 256 (May 1997) pp.17-25.

Middle East construction boom, shortages of technician and skilled workers were felt in the manufacturing and construction industries. Pay for new university graduates in 1976 and 1977 respectively rose year-on-year by 33.1 per cent and 26.1 per cent. There were also increasingly intense struggles to lure workers away from other firms (Lee 1998:93-4). Pressure for wage rises grew, and in the second half of the 1970s the rate of wage rises greatly exceeded the guidelines which the government began to issue in 1977, reaching a nominal annual average of over 30 per cent, equivalent to over 15 per cent in real terms. The rate of wage increases was particularly large in the construction industry, where it was as high as 73.6 per cent in 1976, 34 per cent in 1977, and 44.2 per cent in 1978. The government amended the Trade Union Law, acting skilfully and effectively to restrain the rate of wage rises, and it succeeded in the early 1980s in bringing under control the large jump in prices caused by the second oil crisis.

In the second half of the 1980s unemployment fell sharply, the average rate for the 10-year period 1987-1996 being only 2.5 per cent. Thus in the latter 1980s The Republic of Korea achieved full employment. Moreover, during this 10-year period labour shortage emerged as the main labour market problem and became increasingly serious. Inevitably policy interest turned to focus on measures to deal with this labour shortage and to restrain pressure for wage rises. Also, from the start of the 1980s labour shortage included in particular a shortage of the high quality human resources required for increasingly capital-intensive industrialisation.

From repressive labour policies to the "democratisation declaration"

There is a close internal relationship between the policies taken on wages and the Republic of Korea government's industrial relations policies, which it is worth examining.

As noted above, low-wage policies in the 1960s were an important functional factor in state-led EOI. The General Federation of Korean Trade Unions, re-established in 1961, was unable, in the face of the government's repressive stance towards the labour movement, to organise effectively in representing the workers' growing dissatisfaction; and from the late 1960s the labour movement became increasingly hostile. In consequence the government passed a law imposing limits on the formation of unions and on industrial disputes in foreign-owned enterprises, and in 1971 declared a state of emergency and substantially restricted the "three workers' rights". This led to a radicalisation of the movement, centred on workplaces and in alliance with students and intellectuals, and growing criticism of the GFKTU as a "government pawn".

After the assassination of President Park, the new government which took power in 1979 amended the law on collective industrial relations to a hitherto unprecedented degree of repressiveness. On the one hand, the Industrial Relations Law intensified authoritarian repression on the union movement: it prescribed limitations on the formation of unions and on the qualifications of union officials, prohibited the delegation of the right of collective bargaining, prohibited the intervention of third parties in collective bargaining and labour disputes, terminated the validity of union shop agreements, empowered government ministries to intervene by making orders for changes in union rules and decisions and union agreements, prohibited activity outside the workplace in pursuance of disputes, and introduced a compulsory system of sanctions in private-sector enterprises. On the other hand, a law on industrial relations councils was introduced to promote industrial harmony at the company level. In both cases Japanese-style industrial relations clearly constituted an important model for the

legislation. At all events, these legislation collectively had the effect that "The government's repressive control of trade union activities⁵¹ reached its peak" (Son 1995:204).

However this authoritarian repression did not continue unchanged. As high-speed economic growth continued, workers' living standards improved, educational levels rose, and social consciousness changed. The "democratisation declaration" of 1987 was one natural consequence of this. In the same year the 1980 Industrial Relations Law was extensively revised, although leaving unresolved a number of contentious issues.⁵² This marked a fundamental "reversal" of the repressive policies the government had been following.

The influence of this change in the law was very great. First of all, the liberalisation of the law on establishing unions led to a wave of new unions. Almost all of these were enterprise unions, but new forms of organisations also came into existence. These were to play a significant role in the birth of the National Democratic General Conference of Trade Unions. In addition, there was a flood of labour disputes, many of them long-term and on a large scale. Pressure for wage rises on the one hand, and on the other a sharp increase in unfair work practices and strike-breaking, sharpened the confrontational atmosphere of industrial relations. In addition union demands grew stronger for a further revision of the Industrial Relations Law. Thus the 1987 revision of the law, though making it possible for the unions to follow a more realistic approach, added greatly to the factors making for instability in industrial relations by unleashing years of pent-up frustration on the part of blue-collar workers⁵³ and adding to pressure for wage rises. This instability was a matter addressed and improved in the 1990s.

Incomes policy and wage controls

The course of development of the Republic of Korea government's labour policy can be understood more clearly by following the evolution of industrial policy in the light of incomes policy.

Scholars are divided in their opinions on when incomes policy began. Between 1963 and 1969 average manufacturing wages rose annually in nominal terms by 20.1 per cent, and the second half of the 1960s in particular the real rate of increase exceeded 10 per cent. This led the government to propose and forcefully promote a "productivity wage system". This was due to serious anxiety over the risk of declining international competitiveness posed by cost-push inflation (cf., the 1969 Economic White Paper). The productivity wage system was structured in the light of the importance of ensuring orderly wage rises in line with rising productivity, on the one hand to preserve the international competitiveness of Korean industry, and on the other with the intention of ensuring that wage rises matched productivity increases. In fact it was based on the wage rise guideline proposed by the Economic Planning Institute described as "rate of price rises + rate of labour productivity increase". It proved the occasion of frequent large-scale disputes and the repressive measures against the unions which have been described above. The government tightened pay control in the public sector and, using its powers of control over the private sector, had some success in bringing about the introduction and expansion of the productivity wage system.

⁵¹ For a concrete example, see Son (1995:44-51).

⁵² Many of these disputed issues are taken up by the legislative revision of 1997.

⁵³ On this point, Oh (1997) is of interest. Nimura Kazuo also observes that "relations between blue-collar and white-collar workers in (present-day) Korea resembles the situation in pre-war or early post-war Japan" (Nimura 1997:9).

However, the first oil crisis and consequent price rises obliged the government to relax its repressive pay policies. The government did not accede to union calls for a minimum wage law, but it substantially improved pay for public servants, and promulgated a "low wage guidance standard" based on a survey of low wages and began to give administrative guidance on the subject to private enterprises. Employers' organisations saw this as an important cause of wage rises in the later 1970s (Lee 1998:85-92).

Whatever the effects of the government's low wage guidance standards, the basic cause of large-scale wage rises in the latter half of the 1970s was the tightness of the labour market. The extent to which wages rose has been discussed above. Rising demand in the manufacturing and construction industries was a central factor. Labour mobility increased and starting pay rose sharply. Labour shortage was an obvious problem. In response to growing pressure for rising wages fed by a high rate of price increases, in 1977 the government finally introduced guidelines on wage rises. These were essentially based on the same principles as the productivity wage system, namely "rate of wage increase = rate of price increase + no more than the rate of labour productivity increase". However there was naturally a difference between the opinions of labour and management concerning the proportion of rises in labour productivity which should be added to the rate of price increases in determining wage rises. In 1978 management guidelines were announced on the basis of a formula proposed by employers' organisations which set this proportion at 80 per cent. The employers' organisations did not however manifest much solidarity, and the large price rises caused by the second oil crisis meant even more pressure for rising wages.

The new government which took power in 1980 braked this growth and sought to give priority to controlling inflation. At the same time the government systematically encouraged more wage bargaining at the enterprise level, and sought by this means to modify its tendency towards intervention in wage negotiations leading to "excessive" pay rises. However, in reality this policy, as already noted, involved a very authoritarian treatment of the unions, and at the same time meant that overall policy towards wage rises took on an even more repressive character than the wage guidelines. Once again the government restrained wage rises in the public sector, and this gradually came to have the effect of guidelines on pay rises in the private sector. In addition, a campaign was waged for wage restraint through the mass media and the Bank of Korea and other organs of finance were enlisted in forceful pressure on firms⁵⁴ to keep wage rises down. Thus by a substantial strengthening of incomes policy the rate of wage rises, as well as price rises, fell in the early 1980s. However, there was no sign of alleviation of the labour shortage problem.

During this decade this twice-repeated cycle - of large-scale wage rises leading to repressive policies towards labour, wage restraint in the public sector and wage rise guidelines and other measures to restrain pay rises, leading in turn to the diminution of pressure for wage rises - was repeated again from the latter 1980s onwards. In 1987 the "democratisation declaration" was the occasion of the "workers' great struggle" which led to major rises in pay in the latter part of the 1980s, and in 1990-93 wage rise guidelines were restored. New policy measures were also brought into play. The "total wage system" which the government proposed aimed to bring bonuses and welfare payments, as well as basic wages, within the purview of

⁵⁴ For example, withholding finance from firms awarding pay rises in excess of 10 per cent. See Lee (1998:101).

incomes policy.⁵⁵ The government designated certain firms as "critical control firms" (780 firms comprising 1,1 per cent of the total, and accounting for 15.6 per cent of employees) and for the remainder a productivity wage rise guideline was introduced. However, there was strong opposition to this productivity wage system on the part of employers and labour. The opposition on employers' part to this direct government intervention in wage determination was of a hitherto unprecedented extent.

What is more, unlike the previous two occasions when this cycle had operated, in the aftermath of the "democratisation declaration" the government no longer had leeway to pursue repressive policies towards the unions. Instead the government was obliged to seek new measures, in place of the wage rise guidelines, to put some effective brake on pressure for wage increases. After the civilian administration took office in 1993 this took the form of wage negotiations based on "social consensus"; but this approach also broke down after only two years, as a result of an outpouring of dissatisfaction and criticism regarding the new policy (of "central labour-management consensus") on the part of unions belonging to the Confederation of Labour (the main union grouping, in which the unions of large firms were predominant). Unions began to leave this body one after another. The government subsequently attempted to propose guidelines as a third party, but this also failed to function effectively as a restraining force on wage rises. For example, the relationship of supply and demand in the labour market meant that, although pay gaps between different kinds of work narrowed, the fragmentation of the times at which wage negotiations were conducted led to a widening wage gap between enterprises of different sizes. The diffusion effect between enterprises lost its power, and proved unable to keep wage rises in line between firms (Lee 1998:129f.).

4.3 Policy towards labour shortage

Labour shortages resulting from economic growth were a structural factor in inducing the three cycles of pressure for wage increases which occurred from the late 1960s onwards. As already noted, the Republic of Korea reached full employment by the 1980s.

These labour shortages were particularly conspicuous in small and medium enterprises and in the manufacturing and construction sectors, and among technicians without university education rather than among university graduates. Unemployment was higher for older than for younger workers (Park 1996:14f.; Kang 1996:10; KLI 1997:17f.). Apart from the growth in demand for labour caused by economic growth, there were five other important factors: first, the widening gap, from the late 1980s, between pay in larger and smaller firms; second, the reluctance, particularly of younger workers, to accept jobs which were "dirty, dangerous and difficult" (the "three Ds"); third, a mismatch between the requirements of firms and the supply of university graduates; fourth, low investment by firms in skill development by their workers; and fifth, the impact of the system of military service.

Policy towards quantitative shortages

The policy response to this problem was as follows. First, as might be supposed in view of the fact that the shortage of supply of technically skilled workers was particularly apparent,

⁵⁵ In the continuing tight labour market, employers responded by complying with the government's incomes policy in restraining basic wages, but acceded to labour demands by raising effective pay in the form of bonuses and welfare payments. The purpose of the "total wage system" was to preserve incomes policy by putting a stop to this kind of practice. Oh (1997) states that bonuses in large firms even today reach a figure equal to 12 months' pay, and some cases 15 months' pay.

foreign workers were introduced. At present there are three categories of foreign worker in the Republic of Korea: legally employed workers in journalism, technical transfer, capital investment, education and research, and entertainment; foreign trainees; and illegal foreign workers.

The second category comprises unskilled workers in "basic labouring" work. According to the ministry of justice, in December 1996 the total number of foreign workers was 210,000, of whom trainees accounted for 68,000 (32.4 per cent) and illegal workers 129,000 (61.4 per cent). The figure of 210,000 (1.5 per cent of all the total workforce in employment) is on the high side compared with the ministry of labour's estimate of 1 per cent of the workforce for effective management purposes. The proportion is similar to that found in Japan but strikingly low compared with the figures already seen for Singapore and Malaysia.

The trainee system comes under the jurisdiction of the ministry of international trade and industry and was introduced as an emergency response to the worsening manpower shortage in small and medium enterprises. However, since their conditions are inferior to those of other workers generally, a rapidly rising number of trainees found other employment illegally. Moreover, abuse of the system on a substantial scale, involving for example exploitation by middlemen, has resulted in the existence of the programme becoming the subject of heated debate in government circles. The ministry of labour pressed for the introduction of a work permit system. However in September 1997 it was decided to introduce a revised system closely resembling Japan's current system of practical traineeships (JIL, Foreign Labour Reports, No.257, June 1996:17; No.262, November 1997:11).

The argument that older and women workers should also be used more effectively in the labour force as a means of dealing with the quantitative labour shortage also grew in strength. In July 1992 the Employment of Older Workers Promotion Law imposed on enterprises employing more than 300 workers the obligation that older workers comprise at least 3 per cent of the total. The government also gave strong administrative guidance in favour of an extension of the age of retirement beyond 55. As for women workers, under the Sex Equality in Employment Opportunities Law (1987) the government prohibited discrimination against women in matters of recruitment, employment, training, job allocation, retiring age, leaving employment, dismissal and pay. Traditional discriminatory attitudes towards women are persistent in the Republic of Korea, and the tendency to implement a division of labour between the sexes is deep-rooted. In view of this - unlike the initial Japanese law on sex equality in employment opportunities - the above provisions amounted to outright prohibition. This led to an improvement, albeit a gradual one, in women's employment opportunities (Choi 1995:17; Son 1995:322f.).

Vocational training policy

There is a qualitative as well as a quantitative dimension to the labour shortage, and this raises the issue of Korea's human resources development policies. A new Vocational Training Law was enacted in 1967 incorporating provisions of the Labour Standards Law and the Industrial Training Promotion Law. The Technical Universities Law of 1977 led to the founding of a large number of technical colleges.⁵⁶ Prior to that, in 1974, the Law on Special Measures relating to Vocational Training was passed, with the object of promoting training within firms, and obliging firms with more than 200 regular employees to provide training for

⁵⁶ According to the ministry of labour's "State of the vocational training programme" (Aug. 1997), the first of these technical colleges was Jinin Technical College founded in June 1968; 23 more were established in the 1970s, 2 in the 1980s, and 4 more in the 1990s. These are all public training institutions, funded almost entirely from the national budget.

at least 15 per cent of these workers, on pain of a fine of up to 5 million Won. In response to the vigorous opposition of the firms affected, the law was amended in 1975 to restrict the training requirement to firms with more than 500 employees. By means of a further amendment the following year, an obligation on firms with over 300 employees to provide training for a certain proportion of their workers was imposed, and to implement it a levy system was introduced. In 1989 the scope of application was extended to cover firms with 200 or more workers, and in 1992 it was extended further to firms with 150 or more employees. In July 1995 however the target figure was raised to 1,000 employees (encompassing 377 firms in all).

The size of firms subject to the training obligation has thus been repeatedly varied. At present it is confined to large firms. Since the initial obligation applied to a certain percentage of employees, firms tended to concentrate on employees whose training costs were low; in consequence from 1989 the rule was made that costs paid should be at least 2 per cent of the previous year's total wage bill. If actual training costs fall below this figure the difference must be paid in the form of a levy (cf. Park 1992:12-13; KML 1997:135).

As of 1996, of the 377 firms subject to the training obligation, only 284 (75.3 per cent) are actually implementing the training required. However, it appears that the larger the firm, the stronger is its interest in employee training (or more precisely, in complying with the training law). Table 2 shows the rate of implementation by firms of different sizes.

Table 2. In-firm training implementation rates and levies paid, 1992

	No. of firms affected	Implementing firms (per cent)	Levy paid (million Won) (per cent)
3000-	145	105 (72.4)	30,783 (24.6%)
300-3000	1,432	299 (20.9)	46,264 (77.6)
150-300	1,840	147 (8.0)	4,307 (89.7)
Total	3,417	551 (16.1)	189,548 (42.9)

Note: Provisional calculations by Park from data in Vocational Training Programme Report 1992. "Levy paid" as a percentage of training investment obligation.
Source: Park 1993:21.

As stated above, the Korean system of mandatory employee training is at present confined to firms with over 1,000 workers, where the proportion of complying large firms is 75 per cent. As Table 2 shows, even when - up to 1992 - the law applied also to small and medium firms, the proportion of firms complying was quite low. With the exception of certain large firms, the management of most Korean firms preferred to pay the training levy rather than train their own employees and to try to attract skilled workers from other firms or to recruit the graduates of public training vocational training institutions (Yoo 1995:159; Choi 1995:19). Oh (1997) argues that the predominant attitude of Korean managers towards raising productivity is one of "buying superior technology from abroad rather than training employees". Thus, as in Japan, in-company training is stressed in the Republic of Korea, but the stress is one which must be enforced, even in the case of large firms, by the imposition of a legal obligation. The state of affairs is quite different from the Japanese model in which firms invest in developing the skills of employees who belong to a community based on long-term stable employment. There is great interest in the Japanese model of industrial relations and human resources

development, but this must be seen in the light of the balance between differences and similarities.

Changes in labour law in the 1990s

The Older Workers Employment Promotion Law was enacted in 1992, the foreign trainee programme inaugurated in 1994, and the foreign workers practical traineeship scheme initiated in 1997. In addition the law on labour relations was extensively revised in 1997 (see note [5]). The Physically Handicapped Workers Employment Promotion Law was passed in 1990. There were other new measures, notably the Employment Policy Standards Law and the Employment Insurance Law, both passed in 1993.

These last two laws are closely related. The former, which was "modelled on the Japanese Employment Policy Law of 1966" (Son 1995:219), had five major strands. First, the government was to produce and implement plans for employment insurance, stability of employment, and skill development. Second, in order to provide for comprehensive consideration and planning of all major policies on employment matters, central and regional employment policy councils were established and, in each region, employment stability organisations set up in order to contribute to the promotion of employment for workers and to the ability of management to retain the workforce. Third, the government would provide facilities for vocational training, and would present policies necessary for workers' skill development. Fourth, it would also provide the necessary support for training to promote employment for older workers, women, and physically handicapped workers. Fifth, the government would provide support for employment adjustment by employers, supporting employment stability and promoting re-employment for unemployed workers.

The Employment Insurance Law, enacted at the same time, established three programmes, for employment stability, for skill development, and for unemployment pay (along similar lines to the three programmes of Japan's Employment Insurance Law of 1974). Employers were made liable for contributions in respect of the employment stability and skill development programmes, while contributions to the unemployment pay programme were shared equally by employers and workers. These arrangements are the same as those in Japan. This law marked the first establishment of a system of unemployment insurance in Korea. Previously, "For decades the state continued to offer no system for preserving the livelihoods of unemployed workers. There was only a partial subsidy for a small number of severance pay systems operated by firms themselves. Provisions for giving unemployed workers appropriate information on employment opportunities, help in finding work, or the necessary publicly provided training system were also extremely limited; and since such provisions as were made involved a very interventionist government role, they did not function effectively as a means of producing and supplying firms with the kind of workforce they actually required" (Son 1995:219).

Also in 1993, in December the Vocational Training Law was extensively revised. This had three components. First, firms and public training bodies were given autonomy in their use of training materials, instead of being obliged as they had been to use only materials which had received government approval. Second, workers who had completed basic job training had been required to work for a period equal to at least three times the duration of that training in a company or other place of employment specified by the training organisation; this period of obligation was capped, with a maximum period of five years being specified. Third, in respect of training for new technologies and new kinds of work, the system of licensing for training instructors was largely "liberalized".

Summary

The Republic of Korea's labour market policies have changed with dramatic frequency over a short period of time. As in the case of Singapore, Malaysia and indeed Japan, the course of these developments needs to be understood in the light of the changes in labour market conditions which have accompanied economic growth.

(1) In the mid-1970s the excess supply of labour from farming villages and poor urban areas was largely absorbed into the workforce, and labour shortage became a general problem. The resulting pressure for wage rises threatened the basis of Korea's state-led labour-intensive EOI. The government became seriously concerned to restrain pay increases.

(2) The Republic of Korea passed through three ten-year cycles of wage rises, in the later 1960s, the later 1970s and again in the later 1980s. The causes included a number of factors, notably rising productivity with economic growth, rising prices, labour shortage, and (particularly on the third occasion in the 1980s) union bargaining power, and these variables had different weights in different cycles. On each occasion incomes policy was implemented, to a greater or lesser extent. On the first two occasions in particular (in the 1960s and 1970s), civil service pay was rigorously kept down and forceful measures taken against the unions. As a result, on both occasions temporary pressures for wage rises were brought under control. However, after the "democratisation declaration" of 1987 and the "great workers' struggle", the government lost the ability to restrain wages by suppressing the unions. In the late 1980s there was an outpouring of the pent-up dissatisfaction of manual workers who benefited from the unions' bargaining strength to press for wage rises. The "democratisation declaration" also led to fragmentation of the union movement and inter-union strife. This in turn helped to bring about an internal collapse of the government's attempt in the 1990s to establish the "social consensus" as a neo-corporatist wage negotiation framework.

(3) The labour shortage which economic growth inevitably caused, and the attendant pressure for wage rises, could not be adequately dealt with simply by a policy of holding down the unions. However, as in the case of Malaysia, the policies required to respond to labour shortage were slow in coming.

In order to provide for human resource formation, in the 1970s the government enhanced the public training curriculum and expanded training facilities, and introduced a system requiring firms over a certain size to implement training. Firms which did not comply were required to pay a levy. The manner in which the obligation was imposed, and the size of firms affected, were varied over subsequent years; currently it is confined to large firms with over 1,000 employees and the training expenditure required is set at 2 per cent of a firm's total wages bill. It is noteworthy that this system is one in which the law imposes a training obligation on employers. This reflects the government's view that, left to themselves, employers are unlikely of their own free will to invest sufficiently in employee education and training. Support for this view comes from the fact that, with the exception of some large firms, the tendency of most Korean firms is to respond to labour shortage not by investing in their employees but by "poaching" the workforce they need in the open market; also, objectively, continuing pressure for wage rises reflects market failure in that labour shortages have not been relieved or reduced. With regard to human resource development, the 1993 law on employment measures standards strongly resembles Japan's Employment Measures Law, but the general stance of Korean firms towards investment in skill development and educational training of employees remains very different from that in Japan. One may also discern a strong Japanese influence in the legal system devised for foreign workers brought in to relieve labour shortage. Other measures to deal with the quantitative labour shortage, such as the Older

Workers Employment Promotion Law of 1991 which prescribes a proportion of older workers to be employed, and the Sex Equality in Employment Opportunities Law of 1987, have also had a significant impact. There is an important point in common between all of the four countries under consideration in their use of such measures to cope with labour shortage as the employment of foreign workers (though quantitatively the Republic of Korea and Japan differ greatly here from Singapore and Malaysia), and the mobilisation of women and older workers.

Summary and conclusions

(1) Six points have been identified in this study which need to be considered in an international comparison of labour market policies.

First, what is the fundamental problem - in particular is it one of unemployment or of labour shortage? Second, how important to the government is it to solve labour market problems? Third, how important are the roles of the market and of firms in solving labour market problems? Fourth, are labour market policies active or passive? Fifth, is there a foreign, policy model which may be transplanted or used as a benchmark? Sixth, what is the relationship between labour market policies and other policies such as incomes policy and industrial relations policy, and what part do the representatives of the beneficiaries play in the decision-making system which produces labour market policy?

In other words, actual labour market policies can be understood in the light of these six factors.

(2) Post-war labour market policy in Japan began with the "three employment security laws" (the Employment Security Law, Unemployment Insurance Law, and Urgent Unemployment Measures Law). These measures were a response to massive unemployment and excess labour supply. Subsequent rapid economic growth caused the comparative importance of unemployment as a problem to decline sharply, and much more weight to be given to the shortage of younger workers and of skilled workers. Not only was there a quantitative labour shortage, but because of dramatic technological change a qualitative shortage also emerged. In 1958 the Vocational Training Law was enacted.

The Japanese labour market policy model came into existence during the latter part of this era of rapid economic growth. It took legal shape with the major policy shift "from unemployment policy to employment policy", symbolised by the Employment Policy Law (1966) and the Employment Insurance Law (1974) which put into concrete form the thinking behind the former law. The 1966 law established full employment as a policy objective, recognised the separate existence of a rationale for labour market policy, provided for co-ordinated management of labour market policy together with economic and industrial policy, and began the system of labour market policy planning involving the employment measures basic plans with a view to rectifying structural imbalances between the supply and demand for labour. The 1974 law set out to correct imbalances between labour supply and demand according to region, types of work, sex and age by providing assistance to employers, particularly by means of the three employment insurance programmes, i.e., the employment security, skill development and employment welfare programmes. Subsequent development of Japanese labour market policy took place on the basis of this model.

Looking at the Japanese model from the perspective of the six points mentioned above, one may give the following answers to the questions raised. First, the fundamental policy problem is seen as one of structural imbalances between supply and demand. Second, the objective of policy is, by relieving or mitigating this problem, to achieve full employment. The weight attached by the government to labour market policy in pursuit of this objective is very great, and not inferior to that of economic or industrial policy. Third, policy management takes as a precondition the existence of Japanese traditional employment practices (especially long-term stable employment and a positive and active approach by firms to human resource formation - although there is also a slightly antagonistic effect in the relationship of Japanese employment practices and the labour market policy model). Also, in circumstances in which traditional employment practices and high demand for labour prove unable to eliminate

structural imbalances, it is expected or hoped that these imbalances can be rectified through subsidies for employers paid for out of the autonomous funding which is derived from employers' regular employment insurance contributions. One may thus say that the Japanese labour market policy model is heavily dependent on the role of employers and the working of the market. Fourth, the model is essentially an active labour market policy. Fifth, as far as foreign influences are concerned, the ILO's promotion of active employment policy and the OECD's manpower policies had an indirect effect on the planning of the Japanese model. Sixth, in planning and managing policy, the deliberative councils and working groups set up under the aegis of the Ministry of Labour include representatives of employers' organisations, of the unions and of the academic world, and the decision-making process normally includes their input.

The model arose during the later years of the period of rapid growth, at a time when Japanese industrial relations centred on the metal-working industries and were growing more co-operative in nature (a process hastened by the "defeat" of the workers' side in the Mitsui Miike mining dispute in 1960), and wage negotiations in the process known as the "JC Shunto or 'spring struggle'" have been able to retain a "moderate" character to the present day. The basic structure was little shaken by the oil crisis which helped give rise to Japanese-style neo-corporatism. There was thus no occasion in Japan to introduce an incomes policy. When labour shortages began to appear as a result of rapid economic growth and export-oriented industrialisation, Japan already had a basic pattern of industrial relations within firms which made "moderate" wage rises possible. Japan did not therefore follow the course traced by Singapore, Malaysia and the Republic of Korea in which: (1) economic growth led to labour shortage ÷ (2) rising wage costs led to difficulty in attracting foreign investment or falling export competitiveness ÷ (3) incomes policy based on "suppression" of the labour movement or national corporatism (cf., Figure 1) .

(3) In the case of Singapore likewise labour market policies can be understood in the light of the nature of labour market problems. In the early years of the country a development strategy based on EOI was adopted and pursued through the active encouragement of foreign investment and the CPF fund. In pursuit of this strategy the existence and activities of anti-government unions were subjected to controls and to a process of exclusion. In the course of the 1960s this led to the setting up of a new union body more friendly towards the government (the NTUC). In an attempt to re-structure the system the NWC was established in 1972 and had some success in supporting national corporatism.

However, in regard to the six points above, Singapore had already achieved full employment by the latter 1970s. Consequently, as far as the first point is concerned, the crucial labour market problems for Singapore since then have been a quantitative and qualitative labour shortage. Secondly, for a city-state like Singapore with no resources other than human ones the solution of these problems is recognised as a matter of vital national importance.

The qualitative component of labour shortage assumed much greater importance with the move from 1979 onwards to an economy stressing high added value. This was exemplified by the establishment of the Skill Development Fund (SDF) based on the Skills Development Levy Act (SDLA) of 1979. This arrangement imposes a compulsory levy system on firms with relatively low-paid employees and which tend to be laggard in training their workers (particularly smaller firms) and uses the money thus collected to support skill development. It is closer in approach to the Korean Vocational Training Law than to the Japanese Skill Development Programme. This is suggested by the fact that - as is illustrated by the NWC's guideline on human resource development that "4 per cent of annual wages to be allocated to workers' skill development" should be a national target; on the one hand there is strong interest

and great enthusiasm for human resource formation in Singapore, but on the other hand that skill development tends to be neglected by firms. This lack of zeal on the part of firms towards spontaneously and actively training their employees along the lines of the Japanese model of human resource formation underlies the need which the government felt to set up the SDF, and also explains the government's efforts to establish and expand training bodies able to confer nationally certified skill qualifications, and to promote practically-oriented education in universities and other post-secondary educational institutions. Accordingly the answer to the third of the questions above is that in human resource formation the government in Singapore plays a bigger role than in Japan. On the fourth point, clearly Singapore's approach is one of active labour market policy.

With respect to the quantitative labour shortage, in addition to promoting employment of older workers by the extension of the retiring age and encouraging the part-time employment of women, the problem has been addressed by the controlled admission of foreign workers to the labour force. Such foreign workers may be employed subject to maximum percentages according to industry, and a levy is payable depending on the workers' level of skills. The tendency to employ foreign workers has grown during the 1990s, and they now comprise about 25 per cent of the total labour force. It seems fair to say that the Singaporean economy would not be able to manage without them.

Job placement services in Singapore are very largely privately run. There is no unemployment insurance system, but the CPF, funded by compulsory contributions, provides support for old age pensions, medical insurance, home purchase, educational costs, and so on.

Finally, in comparison with the Japanese model, although in Japan there is a policy-making system at the macro level which might be called "loose administrative corporatism", there is nothing in Japan like the NWC with its officially sanctioned comprehensive functions, nor has Japan introduced an incomes policy. Also, in Japan consideration was given to the admission of foreign workers in response to labour shortage, but there was no move to change the strict attitude which in principle banned the admission of unskilled labourers. The proportion of foreign workers in the labour force is very low compared with Singapore. As regards human resource formation, in Japan in-company OJT and career formation are of great importance, whereas in Singapore much more weight is attached to public education and training institutions and to the qualifications they confer. Also, as stated above, Singapore differs from Japan in its lack of a system of unemployment insurance.

(4) In Malaysia too labour market policies are intimately related to the nature of the labour market and its problems. What is more, the nature of labour market issues is a consequence of the industrialisation strategy which has been followed and of the demand for labour which it has induced.

The history of Malaysian industrialisation can be broadly divided into three phases. In the first phase, from 1960 to the mid-1980s, a policy of import substitution was followed. The second phase, during the later 1980s, was characterised by low-cost, labour-intensive, export-oriented industrialisation based on the introduction of foreign capital. Finally, in the 1990s there was a shift towards a more high value-added, high-tech EOI.

In the first phase, Malaysia continued to suffer from a high rate of unemployment. However labour market policy thinking was dominated by the NEP's basic policy goal of "re-structuring employment" in order to give priority to Malays. In this sense one may say that labour market policy objectives were given priority over other policy areas. However, these objectives did not prove easy to achieve. In general employment creation made progress, but "employment re-structuring" was not accomplished. In order to achieve rates of employment

of Malays in each enterprise of at least 30 per cent there was a need to give special attention to their skill development, but the government did not begin to take a serious interest in such human resource development until the 1990s.

In the second phase the nature of labour market problems began to change significantly. The impact of EOI induced by foreign capital caused labour shortages, which in turn led to increased labour mobility and pressure for rising wages. This raised two new policy problems. One was how to restrain wage costs in order to preserve export competitiveness. The other was how to relieve or mitigate the labour shortage problem. In respect of the first problem, in order to maintain the competitiveness of multinational firms which had invested in Malaysia, the government offered them special tax reductions and exemptions from labour laws. It also strengthened its direct intervention in controlling the unions. This stance, which can be traced back to the first phase of the country's development, differs in kind from Singapore's national corporatism. The quantitative labour shortage was met in practice by dependence on an influx of illegal workers from neighbouring countries.

Consequently, the selection of a low-cost labour-intensive EOI strategy dependent on foreign capital brought about a cycle of causation which may be represented as: (1) labour shortage ÷ (2) concern over wage rises ÷ (3) suppression of trade unions and regulatory control of working conditions.

However, this repressive approach could not be depended on indefinitely. With labour shortage and the attainment of full employment, the limits of Malaysia's low-cost, labour-intensive EOI strategy began to appear. In the third phase of development the labour market and the policy issues it raised directed attention to means of dealing with quantitative labour shortage and to human resource development appropriate to a strategy of high value-added, high-tech EOI. The quantitative labour shortage was addressed by a substantial relaxation of overtime regulations, by the promotion of labour-substituting technology, through employment of foreign workers who came to exceed 20 per cent of the labour force despite the fact that many were sent back to their home countries, and by promoting employment for older and women workers. In a number of respects policies on women and older workers and on limited admission of foreign workers Malaysia learned from the experience of Singapore. This is true also of the measures taken to address the qualitative labour shortage, which included the establishment in 1992 of the Human Resources Development Fund (HRDF), funded by a system of contributions by firms, the expansion and new establishment of public education and training institutions, and the development of the skill certification system.

Thus Malaysia has learned much from the experience of its neighbour Singapore, which at one time formed part of the same country; but there are also a number of differences to be noted. First, Malaysia's industrialisation began later and initially followed a strategy of state-led import-substitution (ISI). This is great measure reflects the fact that Malaysia is rich in primary products. Second, during this period the most basic policy concerns were the elimination of poverty and the "re-structuring of employment", favouring Malays. This is a consequence of the importance of ethnic tensions in Malaysia. Third, industrial relations in Malaysia are quite different from Singapore's national corporatism. They have a confrontational character which was at its most acute in the late 1980s. Fourth, Malaysia did not reach full employment until the 1990s, as much as 20 years later than Singapore. The Malaysian government then woke up at last to labour shortage and to the necessity of human resource development, and began to make serious efforts to address these issues. Malaysia also began to take a stronger interest in learning from Singaporean experiences in labour market policy.

As regards Japanese influences, one may discern some examples of policy attempts to emulate Japan. The revision in 1989 of the Trade Unions Law, for instance, legalised enterprise unions and industrial relations at the enterprise level were promoted, but the importance of these tendencies should not be exaggerated. For example, the largest union in the country is that of the plantation workers, and its agreements are at a national level.

(5) In the Republic of Korea as in the other countries labour market policies are to be understood in the light of the nature of labour market problems.

Korean economic development began as labour-intensive EOI, with the formation of family-owned conglomerates (chaebol) acting with government guidance. Suppressing wage rises in order to maintain the international competitiveness of the manufacturing sector was therefore regarded as an important policy priority. From the late 1960s the Republic of Korea experienced three ten-year cycles of large-scale wage rises. The first two times the sequence of factors followed the following path: (1) strong demand for labour ÷ (2) labour shortage ÷ (3) large-scale wage rises ÷ (4) serious concern for maintenance of international competitiveness of manufactures ÷ (5) wage restraint in the public sector, regulation and suppression of the trade union movement, and wage rise guidelines and other incomes policy measures ÷ (6) diminished pressure for rising wages. After the 1987 Democratisation declaration, however, and in the context of the end of the Cold War and the changed geopolitical situation, the government's repressive stance towards the trade unions softened, and a relatively moderate form of incomes policy based on "social consensus" was attempted, but the attempt proved unsuccessful because of fragmentation and internal conflict within the union movement. The Republic of Korea continues therefore to have an "uneasy" wage determination mechanism.

One of the causes of the problem is labour shortage; in the past ten years been a start has been made in addressing this by the controlled admission of foreign workers and by measures to activate women and older workers more effectively in the workforce. In a number of respects the trainee system for admitting foreign workers and the steps which have been taken to modify it involve lessons learned from the Japanese labour market policy model.

Measures taken to deal with qualitative labour shortage include the system of obligatory employee skill development imposed on firms in the 1970s and the Employment Measures Standards Law and Employment Insurance Law, both enacted in the 1990s. The contents of the obligatory training system have changed frequently over the years, but the important point to note is that it reflects a policy judgement that employers will not, of their own accord, put sufficient effort into human resource formation. In this respect the Republic of Korea is no different from Malaysia or Singapore. The problem is illustrated by the tendency of employers to "poach" and by market failure in human resource formation. The Employment Policy Standards Law and Employment Insurance Law are good examples of the transplantation of a Japanese model. By means of the latter law, the Republic of Korea has at last acquired a system of unemployment insurance.

Although, in Korean policy on collective industrial relations, the Industrial Relations Council Law of 1981 and similar measures demonstrate the importance which is attached in policy terms to industrial relations within firms, there are in fact big differences between the Republic of Korea and Japan, as regards the both the legal system and the reality: Generally speaking, the Republic of Korea cannot be said so far to have established a harmonious pattern of industrial relations. Historically this can be seen in the failure of the government's authoritarian wage restraint policies and in the failure of the attempt to establish a structure of national corporatism. In addition, although human resource development policy attaches great

importance to training within firms, it was necessary to oblige firms to invest in training. Thus, although some parts of the Japanese model of labour market policy have been transplanted to the Republic of Korea, the ways in which those policies actually operate in the Republic of Korea are very different from the Japanese situation, both in industrial relations and in human resource formation. The transplanted model and the reality are clearly distinct.

(6) A few generalisations can be made from this study of the historical development and current state of labour market policies in the four countries studied.

First, as stated in the introduction, labour market policy is here defined to mean the ways in which governments seek to solve or mitigate labour market problems by measures which include human resource formation, job placement, income guarantees for unemployed workers, and policies on foreign workers. There is no need to change this definition. However, in the Republic of Korea, Singapore and Malaysia, study of the realities of labour market problems which policies have had to address brings out two major factors which substantially govern labour market policy, and on which it is largely dependent. These are policy towards trade unions and industrial relations, and human resource development policy.

Second, is the fact that rapid industrialisation over a short period of time tends to lead to labour shortage. This leads to wage rises and rising costs of labour, which give rise to concern for the international competitiveness of manufacturing industry or for the risk that multinationals may lose interest in investing, or even withdraw. This concern is likely to be particularly strong if a country's industrialisation strategy is one of labour-intensive EOI. This means that restraining pressure for rising wages becomes a major policy concern. In order to establish a "moderate" system of wage-determination, it is inevitably necessary to give thought to policies on labour unions and industrial relations. In this sense labour market policies are trade union and industrial relations policies.

Third, it is possible to compare the experiences of the four countries, as shown in Figure 1, in terms of whether, at the time when full employment was attained or labour shortage felt, there was a harmonious system of industrial relations which could support a "moderate" wage determination mechanism, and whether such a harmonious system developed spontaneously or not.

Figure 1. Did industrial relations have a harmonious structure at the time when full employment was attained which supported a moderate wage determination mechanism?

Yes ÷ (1: Voluntary ÷ Japan (1960s*)
 (2: Corporatist ÷ Singapore (1970s))
 No** ÷ The Republic of Korea (1980s) , Malaysia (1990s)

Notes:

* When full employment was reached

** In both countries industrial relations are confrontational and authoritarian.

Fourth, as stated above, labour market policy is dependent on policy for human resource development. This is because human resource development is essential for the relief or elimination of labour shortage. This is particularly true when economic development strategy aims at a capital-intensive, high value-added orientation. The nature of human resource development policies differs widely according to the extent to which, at the time they are introduced, firms can be depended on to invest spontaneously in employee training.

In Japan there is heavy dependence on firms' spontaneous investment, but employee training is promoted by providing inducements to employers through the Employment Insurance Law. The Republic of Korea also sought to follow this approach in the 1990s. However, in the Republic of Korea as in Singapore and Malaysia, the government plays a major role and by various means seeks to oblige firms to implement employee training. This is because human resource development needs cannot be met by relying entirely on the efforts which firms make of their own accord.

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