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**Is Asia adopting flexicurity?  
A survey of employment policies in six countries**

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## Foreword

This paper is part of a series on a relatively new topic in the area of labour market research, **flexicurity**, which describes the nexus between the capacity to adapt the workforce to changes in the economy and the capacity to maintain working and living conditions of the workforce. Factors that require labour market adaptation are globalisation, technology, demography and also changed supply behaviour of the workforce, such as a desire to integrate working and family life. Factors of security in change are employment protection granted by firms and regulated by governments (in danger of erosion) and a bundle of policies triggering social security such as income and employability protection granted mainly by governments and financed by a variety of sources such as employer and employee contributions and general taxes. Flexicurity requires a new balance between employment, income, employability and social protection and the preferred way to achieve such a balance is the social dialogue between the main stakeholders in the economy.

Flexicurity has turned from a buzzword into a policy agenda in the European Union, but there is doubt that such an agenda for encompassing labour market reform providing not employment, but labour market security, is relevant for other regions of the world, and particularly for the developing world.

The present paper adds some new insights to this question by scrutinizing labour market regulations and policies in six Asian countries (China, Korea, India, Sri Lanka, Singapore and Malaysia). The author distinguishes several cases, which refer to levels of development and the structure of the labour market, for example the share of agricultural and/or formal/informal employment.

These cases exhibit distinct sub-regional patterns. India and Sri Lanka, in South Asia, provide (employer-based) 'employment security' and have not transitioned to broader systems of 'labour market security' as envisioned by the flexicurity model. China and Korea, in Northeast Asia, have made that transition over the past decade by reducing restrictions on retrenchment while introducing unemployment insurance and active measures. In Southeast Asia, Singapore and Malaysia offer flexible systems with strong active policies but low security in terms of employment protection and passive measures. The author notes that the characterizations apply mainly to the formal economy. But also in China, India and Sri Lanka, where the informal and rural economies are large, governments have used public works, self-employment programs and skills training to support labour market outcomes.

He also shows that the concept of flexicurity can also be used to map decent work gaps in those countries which lack some of its crucial elements. For example, in countries where employment protection legislation is only strong on paper, but weak in application, and

where social security and the social dialogue are insufficiently developed, no system of labour market security can emerge unless policies are put in place. Seen from the labour market security angle then, the lack of relevance of the concept either points to the lack of institutional capacity on the labour market or the lack of (internal) policy coherence between policies providing flexibility for adjustment and security for workers, and in many instances points to the lack of both.

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## Abstract

The survey analyzes policies that provide flexibility for employers and security for workers in Asia. The cases exhibit distinct sub-regional patterns. India and Sri Lanka, in South Asia, provide (employer-based) 'employment security' and have not transitioned to broader systems of 'labour market security' as envisioned by the flexicurity model. China and Korea, in Northeast Asia, have made that transition over the past decade by reducing restrictions on retrenchment while introducing unemployment insurance and active measures. In Southeast Asia, Singapore and Malaysia offer flexible systems with strong active policies but low security in terms of employment protection and passive measures. The above characterizations apply to the formal economy. In China, India and Sri Lanka, where the informal and rural economies are large, governments have used public works, self-employment programs and skills training to support labour market outcomes.

## A note on currencies

The symbol '\$' is used to denote the U.S. dollar, while '\$S' denotes the Singaporean dollar. The full list of symbols and current exchange rates at 21.09.07 are provided below. Past allocations, expenditures and other figures that are converted from local currency amounts to U.S. dollar amounts use the exchange rate prevailing at the time.

	\$1 =
Singaporean dollar	\$S 1.51
Malaysian ringgit	RM 3.49
Chinese yuan	7.53 yuan
Indian rupee	Rs 40.15
Sri Lankan rupee	LRs 113.60
Korean won	926.80 won

## 1. Introduction

Slow growth and high unemployment have spawned considerable debate in Europe and elsewhere regarding labour market regulation. Such regulation may restrict the flexibility of enterprises to adjust to market demand, changes in technology and other factors. This may, in turn, lead to a loss in competitiveness and reduced employment opportunities, although the evidence is disputed.<sup>1</sup> While de-regulation may increase flexibility for employers it tends to reduce security for workers. Since the late 1990s, the debate about flexibility and security has prompted the coining of a new term, *flexicurity*. That term focuses the analysis on how the needs of employers and workers might be balanced through a judicious combination of various employment policies. The debates have focused on developed and transitional economies and on such policies as hiring and terminating workers, rights to maternity and parental leave, unemployment insurance, re-training programs and related measures.<sup>2</sup>

There has been much less application of the concept of flexicurity to developing countries for obvious reasons.<sup>3</sup> Most low-income countries have not enacted the full range of employment policies that are common to developed countries. Furthermore, the presence of a large informal economy means that a substantial portion of the workforce is not affected by legislation. These two characteristics apply mainly to poor countries, whereas in the middle income countries the informal economy is relatively small and new policies have been enacted in recent years. Asia is a region that includes a mix of low, middle and high income countries. Indeed, a small group of these countries are at or near developed country status, after having developed rapidly over the past several decades. As this paper will show, some of these countries have put in place the types of employment policies common to more mature economies.

The purpose of this paper is to examine labour market policies in six selected Asia countries and determine if (and how) countries are balancing the twin concerns of flexibility for employers and security for workers. The central guiding question is whether countries have transitioned from systems of ‘employment security’ to broader systems of ‘labour market security’ as envisioned by the flexicurity model. Employment security is defined as the security of remaining with an employer. Labour market security includes a moderate level of employment security along with support for making employment transitions. Employment transitions, from one employer to another, most often include an intervening period of unemployment. Assistance for these transitions includes temporary income, retraining, job search and other measures.

As the analysis will show, there is a strong sub-regional pattern in the formal sector employment policies of the six countries (Table 1). The policies in India and Sri Lanka provide employment security – not labour market security. Government approval

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<sup>1</sup> Cazes & Nesporova (2007: 2) note that, “Economists have thus failed to reach consensus on the potential for deregulation to improve labour market performance.”

<sup>2</sup> For research on industrialized countries, see, for example, Auer (2003) and for transitional economies, see Cazes & Nesporova (2007).

<sup>3</sup> The concept has been applied to Ethiopia (De Gobbi, 2006a), Egypt (De Gobbi & Nesporova, 2005) and, at a conceptual level, to developing countries (De Gobbi, 2006b).

is required to retrench workers in larger firms (100+ workers) and income support in the event of layoff is organized at the enterprise level in the form of severance and gratuity payments. Compliance and enforcement of the laws are often weak, however, and thus protection may be strong *de jure* but weak *de facto*. There is no unemployment insurance in Sri Lanka and the new unemployment allowance in India provides limited benefits for only 2% of the labour force. Active labour market policies are generally weak.

In contrast, Singapore and Malaysia provide labour market security through strong active policies. Passive policies are weak, however, and employment protection is low. Approval is not required to retrench workers and unemployment insurance, while affordable, is not provided. The two economies exhibit strong labour market outcomes and currently operate at full employment.

Over the past decade, China and Korea have transitioned from a system of employment security to one of labour market security. Approval for retrenchment has been abolished but at the same time unemployment insurance has been introduced and new regulations to protect non-regular workers have been enacted. Korea's policies have greater coverage, whereas China's reforms have good coverage in the urban sector rather than the (still large) rural sector.

The informal and rural economies, which are large in India, China and Sri Lanka, are characterized by extreme flexibility and minimal security regarding the employer-employee relationship. Most aspects of labour legislation, including social security, do not cover these workers. Moreover, many 'workers', including farmers, are self-employed. Flexicurity is thus a much less useful concept. Governments support the labour market by creating employment (e.g. public works), promoting self-employment (e.g. entrepreneurship programs) and increasing employability (e.g. skills training).

The sub-regional patterns that emerge are partly explained by the political economy of tripartite relations, both recently and historically. Korea's militant labour movement and China's communist legacy may have produced more supportive policies for workers. By contrast, Singapore and Malaysia have pro-business legacies. In addition, their democratic political systems have each been dominated by a single leader and governing party for many years.<sup>4</sup> In India and Sri Lanka, incumbency has been much less a guarantee of electoral success over the past two decades. Control of government has swung between pro-worker and pro-business coalitions. Such shifts have probably hampered labour law reform. In addition to political factors, India and Sri Lanka may be constrained by limited fiscal resources. They also lack an adequate administrative framework to govern enterprises and implement such programs as unemployment insurance. These are general characterisations and a more in-depth analysis, which is beyond the scope of this paper, is warranted.

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<sup>4</sup> Mahathir bin Mohamad was prime minister of Malaysia from 1981 to 2003. The United Malays National Organization is the lead party of the National Front (Barisan Nasional) coalition, which has been in power, uninterrupted, since independence in 1957. Lee Kwan Yew was prime minister of Singapore from independence in 1959 to 1990. His son has been prime minister since 2004. The People's Action Party has been in power, uninterrupted, since independence.

**Table 1: Country classification of employment policies**

	Overall type of security		Employment Protection Legislation (EPL) (formal economy)			Passive Labour Market Policies (PLMP)			Active Labour Market Policies (ALMP)		
	Employment security	Labour market security	High	Med.	Low	High	Med.	Low	High	Med.	Low
<b>India</b>	✓		✓					✓			✓
<b>Sri Lanka</b>	✓		✓					✓			✓
<b>Korea</b>		✓		✓		✓			✓		
<b>China</b>		✓		✓			✓			✓	
<b>Singapore</b>		✓			✓			✓	✓		
<b>Malaysia</b>		✓			✓			✓	✓		

Source: Author, based on the text

The paper is divided into five main parts. The next section considers the concept of flexicurity and outlines its applicability to developed versus developing countries and to the formal versus the informal economy. Section 3 provides a brief overview of the income and labour market characteristics of the six countries. Section 4 covers employment protection legislation in the six countries, Section 5 discusses passive labour market policies and Section 6 analyzes active policies. Section 7 provides a typology of the six countries. A final section concludes.

## **II. Nature of labour market governance**

### **2.1 The concept of flexicurity**

Flexicurity is a term coined in the late 1990s to characterize specific aspects of labour market governance. The first part of the term refers to the flexibility of employers to adjust the workforce based on their needs as determined by market fluctuations, sector restructuring, technological change and changes in the business model. The business model may change such that components and services are outsourced (to firms operating outside the main firm) or in-sourced (allowing other firms to provide workers within the main firm). Changes in markets, technologies and the business model have all been affected by globalization and competition and, in turn, affect workforce levels and structure. The second part of flexicurity refers to the security of workers either in employment or making a transition to new employment. If there is a flexicurity ‘model’, it is one in which the twin elements of flexibility and security are both present and some effort is made to balance them. This is true of most OECD countries, although the nature of the balance can vary considerably. Some countries place the emphasis on security and others on flexibility. As a ‘model’, flexicurity is often closely associated with ‘labour market security’ in which key elements of security are ‘socialized’ through policies and programs administered by or through the state, such as re-training or unemployment insurance (see Auer, 2007). Conversely, when security is provided mainly by the employer and policies emphasize employment protection instead of transitions, then the system is broadly characterised as one of ‘job security’ or ‘employment security’, not labour market security.<sup>5</sup>

In developed countries, the elements of flexicurity are grouped into three main components: employment protection legislation (EPL); passive labour market policies (PLMP) and active labour market policies (ALMP). The elements of these are provided in Table 2. A fourth component, ‘social rights,’ may be included or its elements may be included under EPL (as is done in the table).<sup>6</sup> An analysis of flexicurity includes not only specific policies but also the delivery organizations such as the employment service and the departments and agencies of the ministry of labour and other ministries.<sup>7</sup>

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<sup>5</sup> For the distinction, see Auer (2007: 4-5), including Figure 1

<sup>6</sup> For example, maternity leave may be considered a social right but it also protects employment because the woman is able to return to her work after the period of maternity leave.

<sup>7</sup> Strictly speaking, ‘policies’ are broad statements of direction and intent. The term is used in this paper to include both such statements as well as the laws, regulations, institutions and programs that support and activate that intent.

The three components provide different types of security, as presented in Table 2. EPL generally provides ‘employment security’, defined as the security of a worker to remain with an employer. This operates through regulations against unfair dismissal and regulations on retrenchment. However, government approval for retrenchment has been phased out in many countries and, where it is still required, it may not provide much security if approval is readily given. The best that such approval (and notice periods) may do is to provide time for workers, the union, the employer and government to organize to find alternative employment. Approval for retrenchment is required in two of the six countries surveyed. EPL also covers the growing phenomena of part-time, casual, fixed term and in-sourced labour, which are used either for necessary adjustment purposes or to avoid paying the wages and benefits that are legally due to regular workers.

PLMP provides temporary ‘income security’ for the unemployed. This can take the form of unemployment insurance that is organized by the government and funded through contributions from payroll. It is also provided through severance pay and similar termination benefits, which are funded by the employer and provided as a lump sum. ALMP provides active support to unemployed workers in making ‘transitions’ to new employment. Auer (2005) uses the term ‘protected mobility’ to characterise the active and passive policies that protect and assist workers in making a transition to new employment. Others use the term ‘transitional labour markets’ (Schmid & Gazier, 2002),

Taken together, EPL, PLMP and ALMP provide ‘labour market security’ which includes both some security for those in employment along with support for those making employment transitions.<sup>8</sup>

The three components form a system with distinct complementarities and trade-offs (Auer & Cazes, 2003: 11-17). For example, weak EPL means low security for workers but it can be compensated by strong passive and active policies that support a worker’s transition to new employment. From a bargaining perspective, if passive and active policies are weak, workers will bargain for or seek to hold on to strong EPL to provide some level of security. We see this happening currently in the two south Asian countries, for example. Social bargaining and collective bargaining are the forums in which government, employers and workers negotiate the flexicurity equilibrium.<sup>9</sup>

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<sup>8</sup> This definition of labour market security, used by Auer (2007), differs from that used in *Economic Security for a Better World* (ILO 2004). The latter defines labour market security as the ‘supply’ of job opportunities in the market relative to the demand from jobseekers. That volume provides a seven-part typology of labour-related security, namely: income security, labour market security, employment security, work security, skill reproduction security, job security and representation security, which together result in economic security.

<sup>9</sup> Collective bargaining is the process by which parties reach a collective agreement or contract (for a sector or firm). Social bargaining is used here to denote that part of social dialogue in which the tripartite parties reach specific agreements on laws, programmes or policies that apply more broadly to enterprises and sectors.

**Table 2: Components of flexicurity system**

<b>Components</b>	<b>Specific measures</b>	<b>Nature of labour market security</b>
<b>1. Employment protection legislation (EPL)</b>		
<i>Notice period</i>	Notice given by employers to workers, trade unions and/or government prior to retrenchment	time to make transition to new employment
<i>Retrenchment authorisation</i>	Need for approval ('administrative authorization') from government for retrenchment	employ. security when approval denied; when granted provides time to organize transition to new employ.
<i>Non-regular employment</i>	Protection for part-time, casual, fixed-term and contract labour	employment and benefits security
<i>Wrongful dismissal</i>	Protection against wrongful dismissal (for reasons other than negligent or lax conduct (gender, pregnancy, race, colour, religion, trade union membership, etc.))	employment security
<i>Maternity, parental leave</i>	Provides income support and/or right to return to work after an absence for birth and post-natal care	employment security, also considered a social right
<b>2. Passive labour market policy (PLMP)</b>		
<i>Unemployment insurance</i>	Monthly monetary payment to those temporarily out of work, funded by contributions	short-term income/transition security
<i>Severance Pay (Gratuity Pay)</i>	Payment provided by employers in a lump sum at the end of employment based on years of service	short-term income security
<i>Early retirement</i>	Lump sum or monthly payments provided by employer prior to normal retirement	income security
<b>3. Active labour market policy (ALMP)</b>		
<i>Job search</i>	Job search assistance through the public employment service (i.e. job centres), including job and career counselling	transition to new employment
<i>Skills training</i>	Training or re-training to increase employability	transition to new employment
<i>Self-employment</i>	Promotion of self-employment through business management training, mentoring, credit access, tax breaks, etc.	transition to newly (self) created employment
<i>Wage subsidies</i>	Wage subsidies to encourage hiring of unemployed	transition to new created employment (or employment security)

Source: author

The outcomes of their negotiations will determine, over time, the nature of the system. The outcomes will be determined by various factors, including the relative strength of organized labour, employers and the government, and whether government is more allied with one of the social partners. The outcomes will also be influenced by economic conditions, by public perceptions of what is fair and equitably, and by the ability of the various actors to express their views through their representatives.

The notion of flexicurity provides a means for understanding each country's system and determining where trade-offs and changes may be made. For example, in India the Second National Commission on Labour (2002) recommended that government approval for retrenchment be relaxed (i.e. more flexibility, less security) but at the same time that severance pay be increased (i.e. more security). When talking about trade-offs and complementarities, it is clear that each country will determine its own system. This means that through negotiation a country may have strong EPL relative to P/ALMPs, such as in Japan, or vice-versa, as is the case in Denmark. See Figure 1 for a depiction of the possible situations. Also, all elements may be generally stronger, as in France, or weaker, as in the U.S. (Auer and Cazes 2005: 12).<sup>10</sup>

Following the Second World War, governments in most developed countries emphasized security over flexibility. Collective agreements often even provided a type of job security in which an employee was guaranteed his specific position within an enterprise. In periods of high growth when the need to retrench workers was low, employers were willing to provide such security in the interests of labour peace. The experience of the global depression of the 1930s had given workers a strong hand and encouraged employment creation and the reduction of job loss as part of post-war settlement in industrial relations. As a result, employers were required by law to seek approval from government for retrenchments. For those who were laid-off, passive labour market policies, in particular early retirement schemes, provided financial assistance. Over time there was an increased effort to implement active labour market policies so as to support re-employment and reduce the dependency on unemployment insurance and welfare. These tendencies in labour market governance in Western Europe and other developed countries affected the labour laws enacted by colonial and post-colonial governments in Asia and Africa and by governments in Latin America and those under the influence of the Soviet Union.

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<sup>10</sup> Flexicurity provides a more balanced approach to labour market governance than approaches that stress general de-regulation and low worker protection. The latter is epitomized in the 'Employing workers' section of the World Bank Group's annual *Doing Business* report. For critiques of the report, see: Vandenberg (2006) and Berg and Cazes (2007).

**Figure 1: Flexibility/security trade-offs**

<b>F L E X I B I L I T Y</b>	<b>High</b>	<b>1</b> Employment insecurity (includes informal economy, SEZ, contracting in/out) (difficult for workers)	<b>4</b> Balanced situation (flexicurity) (good for both)
	<b>Low</b>	<b>3</b> Not likely	<b>2</b> Employer-based job security (difficult for employers)
		<b>Low</b>	<b>High</b>
		<b>SECURITY</b>	

Source: author

From the late 1940s, many developing countries adopted a socialist model of development with heavy state investment in productive activities, high levels of public sector hiring and protection for workers in the formal economy. In countries that adopted communism, a guarantee of employment was a central tenet of the new ideology. These approaches were challenged in the 1980s and 1990s as governments moved to more market-oriented regimes with the privatization of state-owned firms and encouragement of private enterprise. An increase in global competition and the need by many developing countries to attract foreign direct investment encouraged a review of the business environment, including the regulation of labour and its impact on productivity. Some countries have adapted to the new environment by reforming labour laws. The general concern is that such laws have become more flexible without a commensurate increase in security for workers. This has not always been the case, however, as we will see in an empirical analysis below. Some countries have not reformed their laws, often because domestic (tripartite) politics make change difficult.

## **2.2 Relevance for developing countries**

The concept of flexicurity is useful for analyzing rich countries because of the developed systems of employment of policy that do exist, comprised of EPL, PLMP and ALMP. Flexicurity provides a way of considering the overall level of flexibility and security and the trade-offs that may be possible. For many developing countries, however, flexicurity may be more problematic because of the following five characteristics of labour markets and their governance, which hinder operationalisation.

First, the central passive policy, unemployment insurance, often does not exist or if it does exist it may cover only a small portion of the workforce. Such insurance exists in only two of our six countries while an unemployment allowance exists in a third country. Without UI, job loss forces people to take whatever work is available or engage in self-employment, both of which can lead to under-employment. Those who are

underemployed or are employed full-time but for low wages are often referred to as the 'working poor'. Income support is sometimes provided to the poor through local welfare organizations (food banks, welfare societies), through local savings schemes (such as rotating credit and savings groups) or directly from kinship groups or the village community.

The second characteristic of poor countries is that a large portion of the labour force works in the informal economy, including smallholder farming. In India, for example, 93% of the labour force is so engaged. Informal work is out of reach of most labour laws. This is due to several related factors: i) the government does not recognize these informal operations; ii) the laws only apply to enterprises above a given size-threshold; or, iii) the law should apply but it is not actively enforced. Thus, where an employer-employee relationship does exist, there tends to be maximum flexibility and minimal security. The employment relationship may, however, be governed by informal mechanisms that are positive (kinship norms, village group work, informal apprenticeships), negative (bonded labour), or ambiguous (sharecropping). A detailed review of these informal mechanisms is beyond the scope of this paper. They are mentioned here to recognize that the lack of formal regulation does not mean that informal labour markets are totally ungoverned.

The third characteristic of poor countries is that the informal economy tends to be characterized by a very large number of very small productive units. In many cases, the 'employer' is often the only 'employee' and is commonly referred to as an 'own-account worker'. There is no employer-employee relationship and thus employment protection legislation, which governs that relationship, is not relevant. Security, if it exists, is based on the capacity to produce and on the strength of demand and access to markets. In these circumstances, worker flexibility may only relate to the ability of the farmer or micro-entrepreneur to call on family members or casual labour when demand is strong and additional hands are needed. Indeed, the ILO has stressed recently that employment vulnerability tends to be high among own-account workers, unpaid family members and casual workers, notably those with limited education and working specific sectors, such as construction, mining and agriculture (Sparreboom 2007).

Fourthly, because of the above characteristics, it is more difficult to analyse 'systems' and the trade-offs between various types of policies. For example, without unemployment insurance, active labour market policies are not focused on the unemployed and the latter have no monetary incentive to participate. ALMPs then become less a means of protecting mobility between jobs and more a general part of employment promotion policies. As well, the lack of EPL for large parts of the workforce means that there is no trade-off with passive or active labour policies. As a result, systems of labour flexibility and security (as mentioned above in relation to Denmark, Japan, France and the US) may be more difficult to depict or different from the models seen in developed countries.

The fifth characteristic is that social dialogue is often weak in developing countries. Such dialogue does take place but may be organized on an *ad hoc* basis rather than through regular and institutionalized tripartite forums. This institutional characteristic can hamper the process of reform or leave reform largely in the hands of government.

Despite these five characteristics, the concept of flexicurity is useful for developing countries in three ways. First, they allow for comparison between countries at different levels of development to map the kind of systems that are evolving. Second, flexicurity provides a framework for determining missing elements of the system. And third, this approach allows us to see where tradeoffs may or may not be possible, or where policy coordination and coherence (preconditions for complementarity) exist or are lacking. For example, where passive or active labour polices do not exist, any weakening of EPL will lead to an absolute decline in worker welfare and will be resisted by workers and their representatives. Conversely, flexibility may be increased in exchange for increased security elsewhere, such as the introduction of UI.<sup>11</sup>

### III. Basic characteristics of the six countries

The six Asian countries surveyed were selected because they account for a significant portion of Asia's working population and they represent different income levels and stages of economic development. Together the six countries constitute 74% of the population of South and East Asia and indeed 39% of the world's entire population.<sup>12</sup> Separately, they vary considerably in terms of the size of the labour force, notably because the group includes a rather small country, Singapore, and the two most populous countries in the world, each with a labour force in excess of 400 million workers. Indicators of human development, per capita income and poverty are provided in Table 3. Singapore and Korea have per capita income above \$20,000 and rank within the top 26 countries in the work in terms of human development. Malaysia has made considerable economic progress of the past few decades with per capita income of just over \$10,000.

**Table 3: Human development, income and poverty**

	HDI Ranking 2006	GNI p.c. PPP 2005 - \$	National poverty line		Poverty, \$1 per day PPP	
			Year	% of pop. below	Year	% of pop. below
<b>Singapore</b>	25	29,520	--	n.a.	--	0.0
<b>Korea</b>	26	22,010	2004	5.0	--	0.0
<b>Malaysia</b>	61	10,360	2002	5.1	2004	0.0
<b>China</b>	81	6,790	2005	2.5	2001	16.6
<b>Sri Lanka</b>	93	4,540	2002	22.7	2002	4.8
<b>India</b>	126	3,430	2004	27.5	2004	35.1

**Sources:** col. 1: Human Development Index from *Human Development Report, 2006*, ranking of 177 countries; col. 2 from *World Development Indicators*; remaining columns from ADB (2007), p. 100.<sup>13</sup>

<sup>11</sup> See also, ILO (2007b).

<sup>12</sup> 'South and East Asia' includes all of Asia (and the Pacific Islands), except Central Asia.

<sup>13</sup> The 'national poverty line' is set by each country and thus does not allow for precise cross-country comparisons. As a result, data for the 'international poverty line' of \$1 per day (PPP) are also given. A comparison of the data using the two measures shows, for example, that China's poverty line is probably low relative to the international line, while Sri Lanka's is high. The figures are provided for background only and a detailed discussion of poverty and its measures is beyond the scope of the paper.

Poverty, measured as per capita income of \$1 per day or less, does not exist in these three countries and poverty measured by national criteria is about 5%. The three other countries have lower income levels, below \$7,000 per capita, and lower human development rankings. Poverty at \$1 per day ranges from 5% in Sri Lanka to 17% in China and 35% in India. Significant reductions in poverty have occurred in the two large countries over the past two decades and these trends are likely to continue given that GDP growth is currently running above 8%.

Basic data on labour force characteristics are provided in Table 4. Per capita income levels tend to mirror the proportion of the workforce engaged in agriculture. In India and China, roughly half of the workforce is so engaged. Labour force participation is high in China at 82% and low in the two south Asian countries at 61%. Official unemployment rates are low, below 5% in almost all cases. The rates probably provide a realistic picture for the three higher-income countries. For the other countries, each with a large informal and rural workforce, the figures mask under-employment and working poverty. Accurate figures for the informal workforce are difficult to provide, in part because of different definitions. India, in particular, has an extremely large portion of its workforce engaged in informal employment in farm and non-farm activities. These workers lack basic labour rights and social security. We need to remember, however, that while the formal labour force constitutes only 7% of India's total workforce, in absolute terms it is still rather large, comprised of over 30 million workers. That is more than the entire workforce of Korea or the total workforces of Malaysia, Sri Lanka and Singapore combined.

**Table 4: Labour force characteristics**

	<b>Labour force (millions)  2006</b>	<b>Lab. Force participation (%) ages 15-64 2006</b>	<b>% workforce engaged in agriculture 2006</b>	<b>Unemploy- ment rate (%) 2006</b>	<b>% of labour force engaged in informal economy</b>
<b>Singapore</b>	2.2	69.5	0.0	2.7	n.a.
<b>Korea</b>	24.3	66.0	7.7	3.6	n.a.
<b>Malaysia</b>	11.3	66.3	14.8	3.3	n.a.
<b>Sri Lanka</b>	9.0	60.8	30.7	6.5	70
<b>China</b>	789.8	81.7	46.9	4.2	n.a.
<b>India</b>	446.9	60.8	54.0	3.1	93

**Sources:** Cols 1 & 2: ILO, Laborsta, 'Economically Active Population Estimates and Projections' (ver. 5); Col. 3: ILO (2007) Tab. 11.5.1 and Sri Lanka (2007); Col. 4: government statistics, China figure for urban only 2005, India figure for 2004-05; Col. 5: Kannan (2007) for India; EML (2007) for Sri Lanka.

## IV. Employment protection legislation

Employment protection legislation is designed to ensure the fair treatment of workers regarding the continuation or termination of employment. Specific measures include protection against unfair dismissal and notice periods prior to retrenchment. In addition, the law may also require government permission to retrench. Protection may also be provided to guard against the use or repeated use of non-regular contracts (temporary, fixed-term or in-sourced) that can reduce security and may deny a worker the rights of regular employment. In this section we focus on three aspects: notice periods, retrenchment authorization and the use of non-regular contract. There is some movement away from retrenchment authorization, which reduces protection, but a corresponding effort to specify rules regarding non-regular contracts, thereby offering some increased protection. This mini-trend is based in particular on recent changes in Korea and China. There appears also to be some general weakening of employment protection in exchange for increased security through passive labour market measures. This latter trend is discussed at the end of section 5, following the review of ALMP. Strong employment protection legislation may not translate in protection for workers when compliance is low and enforcement is weak. As noted earlier, EPL may thus be strong *de jure* but weak *de facto*. Compliance is generally lower in the three countries with lower income (India, Sri Lanka and China).

### 4.1 Notice periods for retrenchment

Notice periods provided by employers to workers vary considerably among the six countries (Table 5). Korea and China provide a standard 30 days for all workers regardless of the length of service. Malaysia has rather long notice periods with 28 days provided to those with up to two years of service and then 42 and 56 days for those with longer service. Singapore has much weaker protection; workers with less than six months of service can be let go with only a single day's notice. A worker must have worked for five years before being granted 28 days. The Industrial Disputes Act in both Sri Lanka and India, which are over a half century old in both cases, grant notice periods only for those workers who have worked for one year or more. In Sri Lanka, 30 days is given, while in India the period is 30 days for enterprises with 10-99 workers and 90 days for larger firms. In both these cases the legislation was designed for industrial firms and does not cover smaller firms; those with less than 10 workers in India and less than 15 workers in Sri Lanka.

**Table 5: Notice periods**

	<b>Notice period in the case of retrenchment (days)</b>					
	<b>Years of service</b>					
	<b>&lt; 6 m.</b>	<b>6m. - &lt; 1 year</b>	<b>1- &lt; 2 years</b>	<b>2- &lt; 5 years</b>	<b>5- &lt;10 years</b>	<b>10+ years</b>
<b>Singapore</b>	1	7	7	14	28	28
<b>S. Korea</b>	30	30	30	30	30	30
<b>Malaysia</b>	28	28	28	42	56	56
<b>China</b>	30	30	30	30	30	30
<b>Sri Lanka*</b>	0	0	30	30	30	30
<b>India**</b>	0	0	30 or 90	30 or 90	30 or 90	30 or 90

Sources: national laws and government documents; \*applies to enterprises with 15 workers or more; \*\*Industrial Disputes Act requires 30 days for enterprises with 10-99 workers and 60 days for those with 100 workers or more.

#### **4.2 Administrative authorization for retrenchment**

Employment security may be enhanced by the requirement that an employer obtain ‘administrative authorization’ (approval or permission) from government to retrench workers. The extent to which this offers security depends on the willingness of the government to grant approval and also on the willingness of the firm to comply with the law.<sup>14</sup> Only the two South Asian countries require administrative authorization (Table 6).<sup>15</sup> In India the law applies to firms with 100 workers or more, while in Sri Lanka it applies to those with 15 workers or more. In India, when a firm applies for permission, the government must communicate its decision within 60 days. If it fails to do so, the law stipulates that permission is granted automatically. In Sri Lanka, a decision is to be rendered in 60 days.

In both countries, permission is not needed if the employee and employer come to an agreement. Such agreements involve a cash settlement under what is known as a ‘voluntary retirement scheme’ (VRS). A firm can entice workers to accept VRS by setting the payout above the level of legally mandated severance pay. In effect, workers will opt for VRS rather than wait for the firm to get permission to retrench and then receive severance pay. It also allows the firm to avoid asking for government permission.

<sup>14</sup> That is, the firm may retrench without asking permission and hope that its actions are not brought to the attention of the government. According to experts, this happens in both India and Sri Lanka.

<sup>15</sup> The law in these two countries goes beyond the protection afforded to workers by the ILO’s Termination of Employment Convention (C. 158), 1982. The convention requires the employer to notify the worker and government and to both notify and consult with the workers’ representative when a number of workers are to be terminated. The Convention does not, however, require the permission of government. The convention has been ratified by only 34 of the ILO’s 181 member countries and has not been ratified by any of the six countries examined in this paper.

**Table 6: Severance pay and authorization for retrenchment**

Country	Date of new laws and revisions	Days of wages in retrenchment pay per year of service				Authorization required for retrenchment?	
		1-2	+2-5	5-20	+20	from gov't	from trade union
<b>Singapore</b>	1966	Agreed at enterprise level				No	No
<b>S. Korea</b>	1997	30	30	30	30	Notice	Notice
<b>Malaysia</b>	1955, '67, '80	10	15	20	20	Notice	No
<b>China</b>	1986, '92, '94	30	30	30	30	Notice	Notice
<b>Sri Lanka</b>	1950, '70, '03, '05	75	75	60-45	30-15	Yes*	Notice
<b>India</b>	1947, '57, '72, '76, 82	15	15	15	15	Yes**	No

Sources: national laws and government documents. \*applies to enterprises with 15 workers or more; \*\*generally applies to enterprises with 10 workers or more. The figures are digressive; for example a Sri Lankan worker who has worked for 7 years will receive 2.5 months of wages for each of the first five years of service and 2 months' wages for the other two years Sri Lanka's formula fits uneasily in this table: 2.5 month' wages are paid for years 1-5; 2 months for years 6-14; 1.5 months for years 15-19, 1 month for years 20-24 and 0.5 month for years 25-34.

As a result, VRS is very popular in both countries. In some cases, VRS may be offered below the level of severance pay if the workers are not unionized and thus not aware of the law.<sup>16</sup> In India, there is considerable dispute regarding the impact of the law. While employers argue that it reduces their flexibility and deters foreign investment, trade unions argue that in practice approval is seldom sought due to VRS and the practise of non-compliance or that approval is granted when it is sought. While employer groups have been asked to document the extent to which applications have been denied, they have failed to do so.<sup>17</sup>

It may be that the law is strongly debated because of its symbolic value: a relaxation would be seen as a victory for employers and a defeat for trade unions on the larger theme of security and flexibility (see Kannan 2007: 16).<sup>18</sup> The Second National Commission on Labour (2002) and the Ministry of Labour and Employment have recommended that the threshold be relaxed to enterprises with 300 workers or more but, also, that severance pay (known as 'retrenchment pay') be increased to 45 days' pay per year of service. The trade unions are in favour of increasing severance pay (to 60 days) but are opposed to raising the enterprise size threshold.<sup>19</sup>

In Sri Lanka, permission to retrench must be obtained from the Commissioner of Labour. Permission has been refused in the past but not recently. However, there are often delays in receiving approval. While the law suggests that a decision should be made within three months, in reality it takes much longer, often up to 10 months.<sup>20</sup>

<sup>16</sup> This point was made by a trade union official in Sri Lanka.

<sup>17</sup> The law is administered at the state level and therefore the Central Ministry of Labour and Employment does not generate figures on the number of applications and their outcome.

<sup>18</sup> The 2007 OECD Economic Survey of India also casts doubt on whether retrenchment authorization is as important a barrier to economic growth as is suggested by employers and some researchers.

<sup>19</sup> The analysis here is based on discussions with several actors in New Delhi.

<sup>20</sup> The estimate is based on interviews in Colombo.

Under China's new Law on Employment Contracts, an employer does not need the approval of government but it must: explain the circumstances to the union or all employees; consider the opinions of the union or employees; and, explain its retrenchment plan to the government's labour administration department. These requirements apply to staff reductions of 20 workers or more, or reductions of less than 20 workers that constitute 10% or more of a firm's workforce.<sup>21</sup> An earlier version of the law would have required employers to gain permission from state-controlled trade unions before retrenching workers. The provision was removed following lobbying by foreign multinationals.<sup>22</sup>

Korea provides an interesting example of a country that moved from a very inflexible to a more flexible system regarding retrenchment. The process took ten years, however, and was brought about by intense social dialogue between employers, unions and government and by the pressures of the International Monetary Fund and the events of the Asian financial crisis. Retrenchment was almost impossible prior to a Supreme Court decision on the matter in 1989. Afterwards, an employer needed a court order to retrench workers. At a secret night session of the National Assembly on 26 December 1996, a number of amendments were passed to the Labour Standards Act. Under the amendments, government approval would be needed instead of a court order. Workers protested the various amendments and, through dialogue, won several changes, although not a change in the need for government approval. As well, the government agreed to delay implementation of the law for two years. This time-delay was never completed, however, due to the onset of the Asian financial crisis. Under pressure from events, employers and the IMF, the Labour Standards Act was re-revised in early 1998 and the requirement for government approval was deleted. Massive layoffs resulted from the changes but the government also strengthened the social safety net (Kitt 2003).

In a country with a high level of unionization and an active and militant trade union movement, the changes in the Labour Standard Acts have been contested and shaped, in part, by organized labour. Indeed, while government approval is not required, there are a number of provisions in the Act that make retrenchment difficult. The law requires that retrenchment be justified on the basis of sustained financial difficulty and not be used in response to stop short-term losses or to restructure. The employer must make "every effort" to avoid retrenchment by taking such actions as: wage cuts, reductions in working hours, suspension of new recruitment, reduction in temporary workers, early retirement, etc. The employer must also undertake "sincere consultation" with the trade union or a worker representative. The employer must notify the government 30 days in advance if the retrenchment constitutes: more than 10 employees for a firm with up to 99 employees; more than 10% of employees for a firm with 100-999 employees and more than 100 employees for a firm with 1,000 employees or more (ibid.). Even when a company's retrenchment plan fulfils these provisions, unions have been known to undertake wildcat strikes and protests to force the plans to be scaled-down and for other, more costly efforts to be used (e.g. re-training) (ibid.).

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<sup>21</sup> For example, if a firm with 30 workers wanted to retrench three of them.

<sup>22</sup> 'China passes a sweeping labour law,' *New York Times*, 30.06.07

### **4.3 Non-regular employment (casual, part-time, temporary, fixed-term, labour contracting)**

Businesses frequently hire workers on a casual, part-time or fixed-term basis. They also engage contractors that recruit, supply and pay workers to work on their premises, often in non-core activities (e.g. security guards, cleaners). In these latter cases, the contractor is the employer and business where the work is done is an indirect or final employer. While appropriate in many cases, these non-regular forms of employment are sometimes used on an on-going basis and can result in abuse (e.g. non-payment of social security contributions, avoidance of termination laws). Korea and China both passed new laws in 2007 to cover these rapidly expanding types of work. India has an older law on contract labour (1970) and other countries have included provisions in larger employment laws (Malaysia Singapore). Table 7 provides an overview of laws in the six countries. The analysis which follows focuses on four of those countries.

China has recently enacted a new Law on Employment Contracts which covers all types of employment (regular or ‘open-term’, fixed-term, job-specific contracts, part-time (casual) work and labour in-sourcing through staffing agencies). A fixed-term contract has a specific end date. It can only be renewed once; thereafter the worker must be offered an open-term contract. Job-specific contracts terminate when an agreed task is completed. The law also limits probationary periods thus ending a common practise of using long probationary periods to avoid offering regular contracts. Part-time work is limited to about 4 hours per day and 24 hours per week. The part-time contract may be agreed to orally – all other types of employment require a written contract. For part-time work, the relationship can be terminated at any time by either party and severance pay is not required. In addition, wages are determined on an hourly basis and must be paid on a 15-day cycle (i.e. not monthly). China’s new law also regulates labour organized by “staffing firms” that provide workers to undertake temporary, auxiliary or substitute job positions in other firms. The staffing firm is required to hire workers for a minimum of two years and provide for wages and social security during their time of placement in other firms. If no work is available, the staffing firm must pay the worker the minimum wage.<sup>23</sup>

In India, a written contract of employment is not required by law but is often provided by an employer to make the terms of service clear to the worker. Part-time workers are treated the same as full-time workers under labour law, with the condition that benefits are determined on a pro-rata basis. Fixed-term contracts are permitted in which the length of the contract is “co-terminus with the activity”, that is, when the employment relationship ends when the task is completed.<sup>24</sup> In this regard, such contracts are similar to the job-specific contracts in China. Contract labour is governed by the Contract Labour (Regulation and Abolition) Act, 1970, and its related Rules, 1971. Generally, the law requires that contract labour, supplied by a contractor or staffing agency, should not be used when the work is perennial, is necessary to the operations of

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<sup>23</sup> ‘Law of the People’s Republic of China on Employment Contracts,’ adopted 29 June 2007, effective 1 January 2008 (unofficial English translation by Baker & McKenzie).

<sup>24</sup> As legal practise has developed through case law, the above information was provided by a Delhi labour lawyer and industrial relations specialist.

the firm, employs a considerable number of workers and is ordinarily done by regular workers elsewhere in that firm or in other firms.

Contract labour is a controversial issue in India because in some cases employers have sought to reduce costs and also avoid provisions of the Industrial Disputes Act that require government approval for retrenchment. In effect, contract labour has been used by employers to adjust the workforce without obtaining government approval. Trade unions and the courts have sought to limit this practice, however. There remains the issue of whether those workers who have been on contract must be regularized (or instead can be retrenched) when the court determines that the jobs they have been doing constitute regular employment.<sup>25</sup>

In Korea, employers have used fixed-term contracts and part-time workers extensively to maximize flexibility and reduce costs. In 2004, for example, fully 30% of all employees were considered non-regular with the bulk of these on fixed-term contracts of three years or less (Jones 2005). As a result of frequent concerns expressed by organized labour through social dialogue, the government passed an Act Concerning the Protection of Fixed-Term and Part-Time Employees which came into effect in July 2007. The act provides for equal treatment between regular and non-regular workers. In addition, it requires that employers give regular job status to workers that it wishes to retain who have been on fixed-term contracts for more than two years. For contract labour, Korea had earlier approved the Act Relating to the Protection of Dispatched Employees, 1998. Less than one per cent of workers are provided by temporary labour agencies (*ibid.*).

In Singapore, work is considered part-time if it does not exceed 30 hours per week. The hourly wage, hours of work per day/week, the number of days per week/month and other details are determined by the employer and employee and set out in a written contract. The conditions of work are governed by the island's main employment law, the Employment Act, Rev. 1996, which covers full-time workers. Labour contracting (in-sourcing) is governed by Part VI of the Employment Act and deals mainly with the payment of salary of the in-sourced worker. Responsibility to pay the worker lies with the firm that provides the worker but also with the firm that receives the worker (i.e. where the work is done) and with an intermediate contractor or subcontractor. A problem is that some companies hire workers and label them as independent contractors, thus avoiding their obligation to contribute to the main social security scheme, the Central Provident Fund. In 2006, action was brought against 180 companies in this regard. As the Minister of State for Manpower noted recently, "If any company claims that its team of 20 cleaners are each working as independent contractors, our enforcement officers will certainly scrutinize the arrangement very close, and will need strong evidence to be persuaded that it is bona fide."<sup>26</sup>

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<sup>25</sup> In the Air India case (1996), the workers had to be regularized; while in the case involving the Steel Authority of India Ltd. (SAIL), the workers did not need to be regularized. See Contract Labour Annual Report 2004-05.

<sup>26</sup> From a speech by Gan Kim Yong, Singapore's Minister of State for Manpower, to the Committee of Supply, 8 March 2007. A person who is an independent contractor provides her own CPF contributions.

**Table 7: Non-regular employment**

	<b>Fixed-term labour</b> (engaged directly by the employer)		<b>Labour contracting</b> (contractor employs workers for work in another business, ie. final employer)	
	Law	Key provisions	Law	Key provisions
<b>Singapore</b>	no specific provisions in Employment Act, Rev. 1996	based on agreement between employer and employee; rights and entitlements as per Employment Act; self-employed providing services are not covered by the Act	Employment Act, Rev. 1996, Part VI	contractor must contribute to social security, notably Central Provident Fund; final employer liable to pay wages if contractor fails to do so
<b>Korea</b>	Act Concerning the Protection of Fixed-Term and Part-Time Employees, 2007	combined max. length is 2 years, regardless of number of renewals, thereafter must be offered regular work if s/he is to be retained	Act Relating to the Protection of Dispatched Employees, 1998	period of service is limited to one year, but it can be renewed once for a year; final employer is liable to pay wages if contractor fails to do so
<b>Malaysia</b>	Employment Act, 1955, Sec. 10	contracts for more than one month must be in writing; (courts have decided whether non-renewal was designed to avoid statutory protection/benefits for workers)	Employment Act, 1955, Sec. 33	only relates to payment of wages; the final employer ('principal') is liable to pay wages if contractor fails to do so
<b>China</b>	Law on Employment Contracts, 2007	fixed term contract can be renewed only once; job-specific contracts terminate when task completed	Law on Employment Contracts, 2007	contractor ('staffing agency') must employ worker for at least 2 years, and must pay at least the minimum wage when there is no work
<b>Sri Lanka</b>	no specific law, common law and interpretations of related laws	fixed-term contracts to be used for job specific work; contract and task are 'co-terminus'	no specific law, common law and interpretations of related laws	final employer is liable to pay wages if contractor fails to do so
<b>India</b>	no specific law, common law and interpretations of related laws	fixed-term contracts to be used for job specific work; contract and task are 'co-terminus'	Contract Labour (Regulation and Abolition) Act, 1970	cannot engage contract labour if work is perennial, part of core operations, involves large number of workers or is normally done by regular workers; final employer is liable to pay wages if contractors fails to do so

**Source:** laws of the respective countries; government websites

## V. Passive labour market policies

Passive policies provide temporary income support during the loss of employment. Five of the six countries have provided some type of support for many years, notably in the form of severance pay. The two South Asian countries have also provided gratuity payments. What is changing is the addition or expansion of unemployment insurance. In some cases, new or stronger UI has been ‘traded’ for weaker employment protection.

### 5.1 Unemployment insurance

Among our six countries, unemployment insurance schemes range from very good to non-existent (Tables 8, 9, 10). Only South Korea and China have *bona fide* unemployment insurance schemes, although coverage in China is still limited because it has a large rural economy. Recently, India has added an ‘employment allowance’ to its long-standing social security scheme (health, maternity and pension) but benefits are low and coverage is limited. Funds are currently not available to launch a more robust system.<sup>27</sup> Sri Lanka has discussed establishing such insurance but changes are needed to existing severance and related benefits, which currently are a burden to employers. As well, fiscal resources are limited.<sup>28</sup> Malaysia and Singapore, two of the higher income countries, with tight labour markets, strong fiscal situations and capable bureaucracies, have consciously decided not to adopt unemployment insurance. These countries feel that such insurance is a disincentive to work and therefore creates a moral hazard. Thus, four countries have no or little unemployment insurance and it is fair to say that two of them (India and Sri Lanka) are limited by resources while the other two (Malaysia and Singapore) may have the resources but have consciously decided not to establish such schemes.

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<sup>27</sup> This was indicated during a meeting with officials at the Employees’ State Insurance Corporation, which currently implements the unemployment allowance.

<sup>28</sup> This was indicated during a meeting with officials at the Ministry of Labour Relations and Foreign Employment.

**Table 8: Unemployment insurance**

Country*	Established (extended)	Eligibility and benefits	Contribution as percentage of wage	
			Employer	Worker
Singapore	-	no scheme exists, supportive welfare, job search and training programmes	-	-
S. Korea	1995 (1998)	contribute for minimum 6 months provides 50% of wages for 90-240 days	0.7-1.3%	0.45%
Malaysia	-	no scheme exists, low unemployment rate, high import of workers) but allowance RM 500 per month for unemployed graduates, retrenched workers and other unemployed who undergo training	-	-
China	1986, (1993, 1999)	1-5 yr contribution: 12 m. benefits 6-9 yr contribution: 18 m. benefits 10+ yr contribution.: 24 m. coverage	2%	1%
Sri Lanka	-	Proposed in 2003 by government but lack of tripartite agreement on financing; Employees' Trust Fund provides some assistance, employers want to transform it into proper UI	-	-
India	2005	'unemployment allowance' added to existing Employees' State Insurance Corporation scheme, which covers medical, injury, etc.; covers 24% of all formal sector workers or 2% of entire workforce.; eligible for workers making Rs 10,000 or less, must contribute 5 years to receive benefits, which provides 6 months benefits in total over the entire lifetime; 50% of daily wage: min. Rs 14 (\$0.31); max. Rs 195 (\$4.33)	4.75*	1.75*

*Source:* various, see text. \* in order of per capita income.

South Korea launched its Employment Insurance scheme in 1995 as part of a three-part program that also included job training and employment maintenance/promotion subsidies. Initially, the insurance covered only enterprises with 30 workers or more while the two other components applied to enterprises with 70 workers or more. However, after unemployment increased rapidly during the Asian financial crisis and it became clear that workers at smaller firms were vulnerable, the enterprise-size thresholds were re-considered. Over a period of 10 months in 1998, the thresholds were gradually eliminated and enterprises of all sizes are now covered by the employment insurance and the two active labour market programs (Hur 2001: 9). Enterprises are required to enrol their employees, but compliance is still not complete.<sup>29</sup> The scheme focuses on formal private enterprises. It does not cover small construction contractors or unincorporated farming, forestry, fishing or hunting businesses with four workers or less. In 2006, about 36% of the entire workforce was covered by the unemployment insurance scheme. Public servants and those subject to the Private School Teachers Pension Act are not covered by this scheme.

<sup>29</sup> Hur (2005) suggests that compliance was about 70% in 2003.

Benefits are provided from three months to two years depending on the period of contribution and also on age. Workers below age 30 receive benefits for a shorter period than those between 30 and 50. The longest benefits period is reserved for those above 50 and the disabled. Benefits equal 50% of the previous wage with a minimum set at 90% of the minimum wage and a maximum of 40,000 won (\$44) per day (Korea 2006: 22).<sup>30</sup>

China provided unemployment insurance for a portion of state enterprise employees from 1986 but expanded coverage in 1993 and then again in 1999 as privatization and the shift to a socialist market economy gathered pace. In 1999, coverage was made mandatory for all urban workers. By the end of 2003 slightly less than 104 million workers or 40% of the urban workforce were part of the scheme. Some 7.4 million unemployed workers collected benefits during that year. As the economy is still heavily rural, only 14% of the country's total workforce was covered during that year (China 2004; Mo and Zhang 2007: 2). Benefits are paid for a period ranging from 12 to 24 months depending on the period of contribution. The benefit is not tied to previous wages but is set below the minimum wage and above the minimum living allowance (a welfare scheme) for urban residents.<sup>31</sup>

In the late 1990s, large-scale closures and downsizing in the state sector threatened to overwhelm China's unemployment insurance system. In response, the government created the Basic Livelihood Guarantee Scheme in 1998 which provided benefits to retrenched state workers in lieu of unemployment benefits. The new benefit was provided for up to three years and was set slightly higher than the local unemployment benefit. If employment was not found after three years, the unemployment benefit was paid. Within a few years, the finances of the UI system improved and by 2004 the Basic Livelihood Guarantee Scheme for former state employees was integrated into the unemployment insurance program (China 2004: 3).

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<sup>30</sup> To provide a sense of the value of the benefits, the minimum wage was equal to about \$27 per day at the end of 2006. The level is determined each year by the Minimum Wage Council (comprised of representatives of government, labour and business) and is finalized by the Minister of Labour. The Council takes into account workers' living costs, along with other factors (Korea 2006a). The minimum wage is equal to 25% of the gross average wage (for manual manufacturing workers), which is the 2<sup>nd</sup> lowest percentage among the 21 OECD countries that set a minimum wage. The average is 38%; Mexico is lowest at 24% (Immervoll 2007: 10).

<sup>31</sup> To provide a sense of the value of the benefits, the minimum wage in Beijing is 640 yuan per month (\$85) which, based on a 44-hour work week, is equal to about \$0.48 per hour. The minimum living allowance for urban residents in Beijing is 330 yuan per month (blomberg.com and Xinhua new service). Thus, the unemployment benefit is between 330 and 640 yuan in that city. The national poverty line is set low, at about 58 yuan per month per capita, while the \$1 per day poverty measure is equal to 230 yuan per month per capita. So unemployment benefits to a household of three would provide it with an income above the national poverty line but below the international \$1 measure (assuming the other adult is not working and the family receives no other income support).

**Table 9: Unemployment insurance adoption and income per capita**

Country	Year UI established	% of total workforce currently covered*	Income per capita in year UI adopted (or 2005 if no UI)**	% of workforce engaged in agriculture when UI adopted***
<b>Six Asian study countries</b>				
Singapore	no UI	0	26,960	0.3 (2004)
S. Korea	1995	36	13,060	12.4
Malaysia	no UI	0	4,165	14.8 (2004)
China, public sector	1986	--	850	60.0
China, +private sector	1999	14	885	46.9
Sri Lanka	no UI	0	846	34.3 (2003)
India	2005	2	620	54.2
<b>Six countries which adopted UI much earlier****</b>				
Japan	1947	--	1,541	52.6
Greece	1954	--	2,358	48.2
France	1905	--	2,894	42.7
Great Britain	1911	--	4,709	8.8
U.S.	1935	--	5,467	17.6
Australia	1944	--	7,362	n.a.

Sources: \* For China: China (2007), please note that UI for public sector was introduced for some parts in 1986 with coverage expanded in 1993; for India: Kannan (2007:7); for Korea: Korea (2006) and (2006b)

\*\*All figures in constant \$, 2001; first six countries use GNI p.c. (and deflator) from *World Development Indicators*; bottom six countries use GDP p.c.

\*\*\**World Development Indicators*; for India, *Economic Survey 2006-07*. Latest figures provided for those without UI.

\*\*\*\*Data from Berg & Salerno (forthcoming).

India added an ‘unemployment allowance’ in 2005 to its long-standing Employees’ State Insurance scheme that provides medical, sickness, maternity and disability protection to formal sector workers earning up to Rs 10,000 (\$243) per month.<sup>32</sup> The allowance covers a loss of employment due to retrenchment or closure, or disability due to non-work related accidents.<sup>33</sup> Family medical support is also provided during the period of unemployment. Eligibility is restricted to those who have contributed to ESI for at least five years. (In Korea and China, eligibility kicks in after 180 days or one year of contributions, respectively.) Because civil servants get free medical treatment, they are not covered by ESI and therefore do not get access to the unemployment allowance. Workers that are covered receive about 50% of their previous wage. However, the benefit is only provided for a cumulative total of six months over the course of an individual’s entire working life. If, for example, a worker is unemployed and

<sup>32</sup> It might seem odd that the coverage is restricted to those earning below a threshold income. However, formal sector companies normally arrange for medical coverage for those over the threshold.

<sup>33</sup> Its official name is the Rajiv Gandhi Shramik Kalyan Yojana.

receives benefits twice for three months each time, she or he will not be able to claim benefits during a future period of unemployment for the rest of her/his life. A total of 8.4 million workers are covered by the scheme which represents about 2% of the total workforce and about 24% of the formal sector workforce. While a relatively small program, nonetheless the inclusion of unemployment under the ESI is an innovation and may be the basis for further expansion in the future.

**Table 10: Unemployment insurance benefits**

	Year	Insured workers (millions)	Workers receiving benefits	% of insured workers receiving benefits	Total benefits disbursed \$	Benefits per worker \$	Benefits as % of income per capita
		1	2	2/1	3	3/2	4
<b>Korea</b>	2005	8.7	696,544	8.040	1.7 billion	2,483	11.3
<b>China</b>	2006	111.9	3,270,000	2.923	2.5 billion	756	9.8
<b>India*</b>	2005	8.4	179	0.002	51,721	289	8.4

**Sources:** Cols 1, 2 and 3 from ESIC (2006); Korea (2006b) and China (2007); Col. 4 calculated from previous column and GNI per capita, PPP, from World Bank WDI. \* first year of operation.

Sri Lanka does not have an unemployment insurance scheme but its Employees' Trust Fund (ETF), which has been in place since 1980, serves a similar purpose. An employer is required to contribute 3% of salary for each employee, while the employee does not contribute. The employee's credit lying in the fund can be withdrawn once every five years for the purpose of providing income support due to unemployment. In 2004, the government unveiled a National Employment Policy which included an intention to establish a proper UI scheme. Financing has been a key stumbling block, however. The government is asking that it be part-funded by employers but employers contend that they already contribute to the Provident Fund and to three termination schemes (severance pay, ETF and gratuity; see below). Indeed, in Sri Lanka the total termination payout provided by an employer to an employee is the fifth highest in the world.<sup>34</sup> Employers have suggested that the ETF be converted into a proper unemployment insurance scheme (cf. Ranaraja 2007: 11-12). Trade unions are currently not opposed to this suggestion, but there remains the question of financing.<sup>35</sup>

Two of the higher income countries, Malaysia and Singapore, do not offer unemployment insurance. In Malaysia, unemployment has not reached above 3.7% for the past 15 years and the government does not feel there is a need to provide income support to the unemployed. In fact, the country has a critical shortage of low-skilled

<sup>34</sup> The rank is from *Doing Business* (World Bank and IFC, 2007: 21). It is based on a worker with 20 years of service with the same company. Out of 178 countries surveyed, only Ghana, Zambia, Sierra Leone and Zimbabwe provide greater termination benefits. In Bolivia and Venezuela it is not legally possible to terminate a worker.

<sup>35</sup> The unions are opposed to using funds from active accounts of the Employees' Provident Fund (EPF). The tripartite partners are interested in combining ETF and funds from the inactive accounts in the EPF, but these sources would be insufficient to launch a UI scheme (interviews in Colombo, August 2007).

labour and imports a large number of workers. Graduate unemployment is emerging as a problem, however. In Singapore, unemployment has also been low for many years and dipped to 2.7% in 2006. Long-term unemployment (more than 25 weeks) is only 1%. Singapore does provide subsidies for low-income households and offers a wide variety of training programs (see below). There is a general perception in these and some other Asian countries that unemployment insurance creates a moral hazard that discourages people from working and thus it increases unemployment. As Singapore's Minister of Finance noted in 1997,

Our strategy has been to encourage economic self-reliance by promoting social mobility. Instead of providing large unemployment benefits and price support schemes, we prefer job creation and market competition. The provision of subsidies has been selective and confined mainly to education, healthcare and public housing.<sup>36</sup>

These two countries appear to be resisting the trend among the other countries in our survey. As noted, Korea established a program in 1995, China greatly expanded its program in 1999 and India began a small program in 2005. For both India and Sri Lanka, funding is a major issue. While such schemes are contributory, they do require a substantial initial investment so that claims can be met and the scheme does not collapse after its first few years of operation. India allocated \$73.5 million out of existing social security funds to establish its scheme. It did not, however, increase the contributions made by workers and employers to Employees State Insurance, under which new allowance is provided. Sri Lanka wants to start a scheme but has yet to find the funds.

## **5.2 Severance (retrenchment) pay**

Severance pay, mandated by law and funded solely by the employer, serves a purpose similar to unemployment insurance. It provides temporary income security in the form of a lump sum payment at the termination of employment. Thus, UI and severance pay might be thought of as rough substitutes and countries without UI may compensate with high severance pay. From our six countries, there is little evidence that such substitution does, in fact, take place (Table 6). In the three countries with no UI, severance pay is high only in Sri Lanka, while it is low in Malaysia and not set publicly in Singapore. Also, India, which has only recently introduced a minor unemployment allowance, has had low severance pay for many years. The two countries with UI (Korea and China) actually have higher severance pay than most other countries.

Such pay ranges from 15 days of wages per year of service in India to 75 days in Sri Lanka (for initial years). Prior to 2003, each severance pay award in Sri Lanka was determined by the Commissioner General of Labour. To reduce the arbitrary nature of awards, which in some cases were very high, a formula was agreed in 2003 and revised upwards in 2005. In Singapore, the level of severance pay is not set by law but agreed at company level and thus is often negotiated in collective agreements.

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<sup>36</sup> Public speech by Richard Ho, Minister for Finance and Chairman of the Monetary Authority of Singapore, 22 March 1997, quoted in Cheung (2000).

### 5.3 Gratuity pay

The two South Asian countries also require the payment of a 'gratuity'. In India, the Payment of Gratuity Act, 1972, requires the employer to pay a sum equal to 15 days' wages for each year of service to a maximum of Rs 350,000. Five years of continuous service is required for the worker to be eligible and the law is applicable to those working in enterprises with 10 workers or more. The gratuity is paid in the case of retirement, resignation, retrenchment, death or disability. Sri Lanka's Payment of Gratuity Act, 1983, operates in a similar manner. The gratuity is paid after five years of service regardless of the reason that the worker leaves the employer. In fact, it is paid even if the worker is dismissed for misconduct, subject to a deduction if damages are caused. The law applies to enterprises with 15 workers or more. In neither India nor Sri Lanka does the worker make contributions for the gratuity. The gratuity is paid in addition to (and not instead of) severance pay.

#### *Summary on passive labour market policies*

Our review of PLMP provides hints of a trend emerging with increased income security provided in countries which have opted for more flexible EPL. Korea and China, both of which resisted calls for administrative authorization for retrenchment, have established or greatly expanded unemployment insurance. Meanwhile, the two countries that have retained such authorization, India and Sri Lanka, have yet to establish or only recently established some type of UI. It will be interesting to see, in the next few years, whether these two countries decide to establish/expand UI and whether it is used to negotiate the abolition or weakening of retrenchment authorization. Furthermore, these two countries provide gratuity payments and, in the case of Sri Lanka an Employees' Trust Fund, which also provide income security. These other schemes may be rationalized and rolled into UI, in part to make the financial costs reasonable to employers. In the case of Sri Lanka, a review of the high level of severance payment may also be part of the reform.

Meanwhile, high severance pay in Malaysia may help to compensate for the absence of UI, other retrenchment benefits and retrenchment authorization. This has been Malaysia's choice and while it appears as a rational trade-off, there is no guarantee that a country without UI or retrenchment authorization will opt for high severance pay. Indeed, Singapore's situation in many ways is similar to that of its northern neighbour but it does not set a minimum level for severance pay.

## **VI. Active labour market policies**

The six countries use a range of active labour market policies to assist workers in securing employment. These policies are closely integrated with unemployment insurance in the two countries where UI exists (China and Korea) but not with the new allowance in India. Open unemployment is low in nearly all the countries and thus many policies are designed to reduce under-employment and increase the productivity and profitability of existing activities in the informal farm and non-farm sectors. The lack of UI in several countries and the problem of under-employment means that 'systems' of labour market support are less integrated in Asia than in Europe, for example.

All the countries have a national employment service to support job search. Most countries complement physical offices (job centres) with interactive websites that allow jobseekers to register and employers to post vacancies. Skills training is another common policy but is not necessarily directed to the unemployed but is designed to increase the skills in the economy. Countries promote self-employment and given their high level of rural and informal economies, this can be quite important. China, in the past, and India, in the past and recently, have used public workers programmes to promote job (and income security) in rural areas. Korea and Sri Lanka have used public works in the face of crisis, the former in response to the Asian financial crisis and the latter as part of post-tsunami recovery efforts.

### **6.1 Employment service (job search)**

As noted, all countries have an employment service to assisting jobseekers but also to help employers recruit new staff. The service is publicly managed and funded, with the exception of Sri Lanka which is experimenting with a public-private partnership that is directed by representatives from government, employers and workers and is designed to be financial self-sustaining.

Job centres in all the countries combine job search assistance with some job and career counselling, including advice on training and education opportunities. The analysis below provides a review of these activities. The coverage of the employment service is provided in Table 11. The two highest income countries offer the broadest coverage in terms of both population and geographic area. The data for China are difficult to compare as they have both main centres (above county level) and centres organized at lower levels by residential districts, communities and towns and villages. Including these lower tier centres would place China at the top in terms of population coverage and second in terms of area coverage.<sup>37</sup> Malaysia has low area coverage relative to its population coverage due to the sparsely populated eastern region on the island of Borneo.

Four of the six countries have national job matching web-sites that allow individuals to search for employment opportunities without entering a job centre.

A detailed comparative analysis of expenditure and efficacy of the public service in each country was not attempted.<sup>38</sup> The table represents the public employment service which is complemented by private employment agencies, which may be more or less numerous in each of the countries, and by newspaper and related advertisements.

Sri Lanka has experimented with a number of employment service schemes since the early 1970s. From the mid-1990s, the government has mandated Divisional Secretaries, working in offices of the Department of Labour offices, to provide counselling and job search through Job Clubs. There are currently 325 such secretaries performing this task. However, this approach has not been particularly effective and in

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<sup>37</sup> The lower figure was used in the table in part because data from 2006 survey of the World Association of Public Employment Services (WAPES) indicates that (using the higher figure), each centre is staffed by only three employees *on average*, which is considerably below the staffing levels for the other countries in the survey.

<sup>38</sup> The 2006 WAPES survey included only China out of the six countries analyzed here. Data on employment service expenditure for China are not provided in the survey results. See [www.wapes.org](http://www.wapes.org).

2003 the government's National Employment Policy called for the establishment of a *bona fide* employment service to be called the National Employment Sourcing and Delivery System. The government and the Ceylon Chamber of Commerce (CCC) launched such a scheme in 2004, with 'JobsNet' as its short title. It is comprised of a network of 19 centres spread across the island and an online database where jobseekers can register and employers can post vacancies. The centres provide counselling, job referrals, information on training and packaged human resource services for employers. The scheme was funded for four years by foreign donors who saw it as an innovative approach to employment service because it was based on a public-private partnership. In addition, it was to be financially self-sustaining with jobseekers and employers paying a fee to use the service.<sup>39</sup>

**Table 11: Public employment centres**

Country	No. of public employment centres*	Centres per 1 million of economically active population	Area coverage (km <sup>2</sup> covered by each centre, on average)	Worker required to register for UI benefits	On-line facilities to match jobseekers and vacancies
<b>Singapore</b>	21	9.3	33	no UI	yes
<b>S. Korea</b>	157	6.9	629	yes	yes
<b>China</b>	4,038	5.3	2,310	yes	no
<b>Malaysia</b>	38	3.7	8,646	no UI	yes
<b>Sri Lanka</b>	19	2.4	3,402	no UI	yes
<b>India</b>	938	2.1	3,170	no	some states

\*China has 4,038 centres above county level and another 13,972 at or below county level which are organized by residential districts, communities and towns and villages. The table includes only the former, as that figure probably provides for a more fair comparison with the other countries. Including the latter, China's people coverage would be 23.7 and its area coverage would be 518 km<sup>2</sup> per centre.

Sources: India: ILO (2006: 31); China (2005: 61), Korea (2006b); Sri Lanka: interview with head of JobsNet; Singapore: government website; Malaysia: telephone interview Department of Labour.

(Jobseekers were never asked to pay fees, however (SIDA 2006)). From its inception in 2003 to mid-2007, JobsNet officially placed 8,306 people, but there has been considerable under-reporting and total actual placements are estimated at 26,000.<sup>40</sup> Its success rate and thus revenues have been rising over time with placements averaging 721 per month in the last three quarters of 2006. Jobseekers are not required to register because there is no unemployment insurance in Sri Lanka. However, employers must notify the government of retrenchments and these workers are being referred to JobsNet for placement and for counselling on careers and training opportunities. Donor funding has ended and in mid-2007 the organization was being established as a company. It will

<sup>39</sup> Under the ILO's Private Employment Agencies Convention (C. 181), workers must not be charged fees or costs by the agency. Furthermore, the ILO's Employment Service Convention (C. 88) requires a ratifying country to provide a "free" public employment service. Sri Lanka has not ratified either of these conventions.

<sup>40</sup> Information provided by JobsNet.

be guided by a board consisting of representatives from government (40%), private employers (30%) and trade unions (30%).<sup>41</sup>

China operates a three-tier structure of employment services to assist with job transitions. Some 4,038 employment centres are run by the provinces, cities and districts, while a further 13,972 operate below the county level by residential districts, communities, villages, towns and other organizations. In addition, there are 8,148 centres which are called 'social employment services' and are run civil society groups (such as women's federations and trade unions), businesses, individuals and others. They cater to the needs of their own members or, in the case of businesses, to their retrenched workers.

In addition to the regular employment service, China has organized industry and enterprise-based centres to support the massive restructuring and privatization effort of the late 1990s and early 2000s. Shanghai was a major centre of innovation. In 1996 it set up two 're-employment service centres', one for textile workers and another for instrument and electronics workers. A year later it set up five more centres for other industrial sectors. By the end of 1998, some 583,000 workers had registered at the centres and 420,000 had passed through finding new jobs. The approach gained national prominence and was promoted in 111 pilot cities across the country in 1998. In May of that year the government expanded the system further, requiring all state-owned enterprises that were retrenching workers to set up re-employment service centres at their enterprises. The centres ensured both that the workers were paid their basic living allowance and that they received training and assistance in finding new jobs (Mo and Zhang 2006: 11-13). From 1998 to 2003, a total of 24 million workers were registered at these centres and nearly 19 million found new jobs (China 2004).

India operates a National Employment Service with a network of 938 'employment exchanges' that assist workers and employers. The Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959, made it mandatory for the public sector and for private enterprises with 25 workers or more to register their vacancies at the nearest exchange. Subsequently, various administrative orders by the national and state governments made it mandatory for the public sector to also recruit through the exchanges. These legal and regulatory requirements initially lent support to the use of the exchanges.

Over the past 20 years, however, several factors have reduced their role in assisting with job transition. Public employment has fallen and formal employment overall remains low (7% of the workforce). In addition, public sector recruitment often takes place through special boards that are exempt from the Act. As well, a decision by the Supreme Court in 1996 opened the way for the public sector to bypass the exchanges when recruiting. As for the private sector, many employers opt for non-compliance because enforcement is weak and penalties low (see Chandra *et al.* 2006: 1, 38). Workers who are retrenched and receive the new (2005) employment allowance are not required to list at an exchange. Skilled and professional positions are generally filled through the large number of private job placement agencies that operate in urban areas and through privately-established websites dedicated to job search. As a result of these trends, the number of vacancies registered with the public exchanges fell by half between 1991 and

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<sup>41</sup> Information is based on an interview at JobsNet and internal documents.

2002, while the number of placements dropped by 44%. The government has been conscious of the need to make the service more relevant and the most recent figures indicate a significant reversal of previous trends.<sup>42</sup>

Korea operates a network of 157 Employment Security Centres which assist workers in finding jobs through in-depth counselling and advice on vocational training. Registration at the centres is mandatory for those collecting unemployment benefits. A public website of job vacancies is organized, called WorkNet. In addition, the government provides an 'Out-placement service subsidy' to companies that help their retrenched workers find jobs with other employers. The service should involve counselling along with information on job vacancies, business-start-up support and external job placement agencies. The employer can either organize these services itself or contract it out to a professional agency. The subsidy covers half of the costs of providing the outplacement service at large companies to a maximum of KW 750,000 for each worker using the service. For smaller and other preferential companies, the subsidy covers two-thirds of the cost, to a maximum of KW 1 million per worker.<sup>43</sup> The subsidy program promotes the involvement of employers in finding work for retrenched workers and in this way is similar to the Chinese program of enterprise-based re-employment service centres, as noted above.

Singapore's public employment service is the Workforce Development Agency, which is under the Ministry of Manpower. It supports job placement and counselling on skills training opportunities through a network of 21 Distributed CareerLink Centres, spread out across the island. The unemployed are not required to register, as there is no unemployment insurance. WDA operates a free, internet-based vacancies site called JOBSlite. Employers can (but are not required to) post their vacancies and jobseekers apply directly to the employer. Each posting is automatically deleted after 30 days to keep the list current. The site lists about 1,000 jobs.<sup>44</sup>

In Malaysia, the public employment service is provided through 38 Department of Labour offices across the country. These offices provide counselling and assistance with job search. The main vehicle for matching jobseekers and employers is the Electronic Labour Exchange, a free, web-based service that was set up in 2004 and has profiles of 100,000 jobseekers. As with the exchanges in Singapore and Korea, employers can both post vacancies and search the database for suitable candidates. Recently, kiosks have been set up at shopping malls in Kuala Lumpur to encourage jobseekers, notably young people, to register and use the exchange.<sup>45</sup>

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<sup>42</sup> Vacancies dropped from 458,400 to 220,300 in the period 1991-2002 but rose to 349,200 by 2005, the year for which the latest figures are available. Placements dropped from 253,000 to 142,600 in the period 1991-2002 but rebounded to 173,200 by 2005 (Chandra *et al.*, 2006: 32; Report on Employment Exchanges, 2006, Ministry of Labour and Employment, India, p. 27).

<sup>43</sup> In US dollars, the figures are, respectively, \$812 and US\$1,082.

<sup>44</sup> A random check on 26 July 2007 revealed 990 job vacancies posted on the site.

<sup>45</sup> Information obtained during a telephone interview with a Department of Labour official.

## 6.2 Skills training

A key aspect of a person's ability to secure and retain employment is their skills set. As such, governments in all countries provide skills training to improve employability. The variety of programs, training providers and funding sources makes precise (quantitative) comparison difficult. Generally, there are four major target groups and several sub-groups that require specific types of training, as follows:

- |                       |     |  |
|-----------------------|-----|--|
| 1. employed           | i)  | on-the-job training or training leave                |
| 2. unemployed         | i)  | laid off from private or public employer             |
|                       | ii) | large-scale retrenchment from state enterprises      |
| 3. youth              | i)  | still in the education system, at whatever level     |
|                       | ii) | left education, difficulty securing regular a job    |
| 4. informal and rural | i)  | to improve productivity in informal or rural sector  |
|                       | ii) | to shift out of rural area/farming to new urban jobs |

Table 12 provides an overview of the main target groups and programs in our six countries. Types 1 and 2.i training (for the employed and regular redundancies) is strongest in the higher income countries with tight labour markets, that is, Korea, Singapore and Malaysia. In the two latter countries it is funded by a payroll levy. Training as part of large-scale retrenchment (2.ii) has been used by China in particular but also by India in the past 15 years as part of its economic reforms.

Type 3.i training, for youth still in school, is available in all countries. Some countries have made strong efforts in recent years to increase the number of training opportunities. Malaysia's new technical college system and India's announcement on a massive building program of new institutions are cases in point. Countries are also concerned with the quality and labour market relevance of the training provided. Examples include India's Centres of Excellence program, where private employers help to manage public institutions, and China's program to improve the quality of vocational training. Type 3.ii training for out-of-school youth is used in countries with a particular concern with youth unemployment, such as Sri Lanka and Malaysia and to a lesser extent also Singapore. Training is often combined with workplace attachments so that young people can adjust to the world of work.

Type 4.i training is prominent in lower income countries with large informal and rural economies, notably China, India and Sri Lanka. Type 4.ii training is used in particular in China where the government is conscious that there is a large surplus of rural workers who need to shift to the opportunities offered in rapidly growing urban centres. While India is not specifically training rural workers for urban jobs, the training that takes place under Type 3.i does support a shift to urban jobs.<sup>46</sup>

Given the importance of skills development and training for enhancing workers' asset-driven internal and external flexibility, a more detailed review of skills programs is provided below.

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<sup>46</sup> This is because jobs are available in urban areas but also because young people move to urban areas where the training institutions are and so become acquainted with urban life and decide to stay on.

**Table 12: Skills training priorities and initiatives**

	<b>Priority groups/areas</b>	<b>Major programmes and initiatives</b>
<b>India</b>	- informal economy workers - improving vocational education system	- Skills Development Initiative (IE) - Centres of Excellence (VET) - expansion of educational institutions
<b>China</b>	- retrenched state workers - rural poor and migrants - improving vocational education system	- 3 Yr Plan to Train 10 million Laid-off - Plan to Strengthen Vocational Training - Dewdrop and Sunshine programs
<b>Singapore</b>	- in-service training - youth and older workers	- Skills Development Fund – payroll levy - Lifelong Learning Endow. Fund - Nexstep and Place and Train - youth
<b>Malaysia</b>	- in-service training - unemployed youth/ graduates	- HR Development Fund - payroll levy - Skills Development Fund - youth - Graduate Training Scheme
<b>Korea</b>	- unemployed - training in small enterprises - training for jobs in social services	- on-the-job and new recruits training - subsidized training and education leave - training for unemployed
<b>Sri Lanka</b>	- unemployed youth and graduates - rural workers	- competency based standards - VET and university curriculum - workplace attachments for graduates

**Source:** author, based on Appendix A

### *India*

The general perception in India is that the workforce needs to be better skilled if the country is to develop and compete internationally. Only 5% of those aged 20-24 have obtained skills through the formal training system and many government skills training institutes are in need of upgrading. The government has recently embarked upon three major initiatives to expand and improve training. These initiatives are designed to assist the un- and under-employed and youths entering the job market. Those who receive the new unemployment allowance are not required to undertake retraining and thus active and passive policies are not linked in this area.

The first initiative is the Centres of Excellence scheme. The government currently operates about 5,100 industrial training institutes and centres that can accommodate three-quarters of a million students. Many of these are under-funded and lack adequate training equipment. With funding from the World Bank, the government is currently upgrading 500 of them into ‘Centres of Excellence’. Representatives of the business community are involved directly in the management of these centres and the curriculum is being improved to ensure that it is relevant to the needs of employers.

The second major program is the Skills Development Initiative, announced in December 2006. It supports short-course vocational skills training provided in modular

format.<sup>47</sup> The courses are offered to both school dropouts and recent and past school leavers. Under this initiative, the government hopes to train one million young people in five years at a total cost of \$135 million. After five years, it hopes to continue the program and train one million people annually (India, 2006).

The third major initiative is a massive proposed expansion of education and training through the construction of the following new facilities: 6,000 quality secondary schools; colleges in 370 districts; 30 universities; 5 Indian Institutes of Science Education and Research; 8 Indian Institutes of Technology; 7 Indian Institutes of Management; 20 Indian Institutes of Information Technology; 1,600 industrial training institutes and polytechnics; 10,000 vocational schools; and, 50,000 skills development centres. A timetable for completion of these new institutions was not indicated.<sup>48</sup>

In addition to these recent initiatives, the government operates an Apprenticeship Training Scheme that supports 253,000 on-the-job training places at 20,700 businesses and other workplaces. The government is also developing a skills certification system so that those who have gained skills on-the-job can be certified.

India has also used skills training since the early 1990s to support the re-employment of workers shed by public sector enterprises. In July 1991, when Mr. Singh was finance minister, he launched the National Economic Policy to liberalize the economy and created the National Renewal Fund to support the shedding of excess public sector workers. This Fund was designed to finance active labour market policy measures, notably counselling, retraining and assistance with re-employment, including self-employment. It also provided for voluntary retirement schemes (VRSs), a passive measure which provided lump-sum payments, particularly for older workers. While the active measures were meant to take precedence, the VRS became much more prominent (Mishra 1999: 22). For example, by 1998 some 118,509 public workers had opted for VRS. Of these, about 40% took employment-related counselling and 27% also participated in training. Only one-third, of those who received counselling and training, found new jobs. The figures are affected by the fact that about half of the workers taking VRS were 50 years of age and over and would have found it difficult to secure re-employment.<sup>49</sup> Commenting in 1998 on the limited results of the active policies, the Minister of Labour noted that “[i]mplementation of the NRF for retraining is not considered a big success” (Jatiya 1999: 27).

The NRF was closed in 2000 and the active measures were subsequently taken over by a new Plan Scheme for Counselling, Retraining and Redeployment (CRR). By early 2006, CRR had retrained just under 90,000 public enterprise workers who had

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<sup>47</sup> Modular format allows trainees to take courses at different times over the course of several years. It eliminates the need to engage in full-time, continuous training, which is not possible for those who need to keep working to support themselves.

<sup>48</sup> The plan was first announced in the Prime Minister’s Independence Day speech in August 2007. The figures above are from the text of the speech.

<sup>49</sup> In early 1990s, an estimated 500,000 public enterprise workers were considered surplus (Chandra 1999: 217). This was probably an accurate figure as the government now estimates that between October 1989 and March 2005, approximately 555,000 public workers accepted VRS (MHIPE 2007: 86).

accepted VRS. An additional 29,000 were expected to receive training in FY 2006-07. Slightly more than half of those trained have been able to secure new employment.<sup>50</sup>

### *China*

Recent Chinese initiatives are generally similar to those pursued in India. In both countries there is an effort to train surplus public sector workers, improve pre-employment vocational training and offer training to workers in smaller, unorganized units. Because China is making a more fundamental shift from public to private ownership, the magnitude of some initiatives are much larger than in India.

In 1998, the government launched a massive training program to help workers in the over-staffed state enterprises find jobs with other employers. The modestly named 'Three-Year Plan for Training 10 Million Laid-Off Workers for Re-employment', in fact trained 13 million people, with 65% of them finding new jobs. The program was continued in a second phase with an additional 15.3 million retrenched workers receiving training in 2001-2003. Essentially, all workers laid off from state enterprises were re-trained. A similar proportion (two-thirds) of this second batch of workers found jobs. Such a re-employment rate is adequate for training programmes, although hardly stellar. The training was given in flexible formats and coordinated with the enterprise-based Re-employment Service Centres, discussed above (China 2004b).

The government has increased the number of vocational training institutions and worked to improve the quality and labour market relevance of the training.<sup>51</sup> In 2002 it launched a 'Plan for Strengthening Vocational Training to Improve Employment Qualifications' and a 'National Project for Training Highly Skilled Personnel'. In addition, 500,000 new technicians were trained over three years. The government also supports the training of existing employees with 34 million receiving training in 2003 (China 2004b).

The government supports a number of programs for basic and skills training in rural regions, including poor areas. Considerable effort is being made to provide skills to surplus rural workers so that they can find jobs in the cities. A government directive on migrants covering 2003-2010 envisioned the training of 60 million workers in basic skills and 35 million workers (many of the same ones) in vocational skills. In addition, 250 million migrants who had secured non-agricultural employment would receive on-the-job training over the period. In terms of specific initiatives, the 'Sunshine Program' helps rural people obtain skills so that they can migrate and obtain jobs in the cities. The program was launched in 2004 with an objective of training 5 million people in the first two years and another 30 million by 2010. Another such program, called 'Dewdrop', was launched in 2006 with the aim of financing free vocational skills training to 5 million

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<sup>50</sup> The re-employment figure is based on FY 2005-06, during which 28,854 individuals were trained and 15,464 of them found new jobs (54%). These and other figures in the paragraph are from MHIPE (2007: ch. 9).

<sup>51</sup> There are 14,400 vocational senior middle schools, polytechnic schools, polytechnic schools for adults and technical schools in China. In addition, there is a proliferation of non-degree adult training options. In 2003, over 74 million adults completed such courses. Along with government schools, there are about 70,000 non-government schools offering various types of training to 14 million students. The government also operates 3,465 employment training centres. Figures are for 2003 (China (2004)).

people in areas of high poverty, also by 2010. Such training would normally cost participants between \$50 and \$130. China has 2,324 poverty-alleviation training ‘bases’ (centres) with courses in agriculture, forestry, animal husbandry and other subjects. Job placement rates for these two types of programs tend to be high, in the range of 80-90%.<sup>52</sup>

### *Singapore*

Singapore operates a wide range of training programs which are financed through the Skills Development Fund (SDF) and the Lifelong Learning Endowment Fund (LLEF). The SDF was launched as far back as 1979 and is financed through a mandatory training levy paid by employers that is equal to 1% of the monthly salary of workers earning S\$2,000 or less.<sup>53</sup> The fund financed 478,000 training places in 2005, equal to 19% of the country’s entire labour force.<sup>54</sup> LLEF was established in 2001 and its endowment has grown to S\$2 billion. Activities are funded through interest earned on the endowment. The two funds spent S\$146 million in 2005 on various programs including training, job placement and related activities to support human resource development.

Since the Singaporean economy is at full employment, the vast majority of trainees are already employed. For employee training, the SDF pays 80% of the course fee and 80% of the employee’s salary during the training.<sup>55</sup> The reimbursement of course fees and salary costs rises to 90% for those who are aged 40 or above and have no more than a high school education. This is meant to support the training of older and less educated workers. Singapore has developed some interesting new approaches to training and re-employment for the unemployed. The Re-Employment Support Scheme provides a job retention incentive of S\$1,800 over 18 months to the unemployed who have no more than a high school education, if they adjust to new jobs, pick up new skills and stay on the job. The scheme was set up in early 2005 and some 4,200 jobseekers found work and were receiving the incentive by March 2006. Another scheme, called ‘Nexstep’, targets disengaged youths between the ages of 15 and 25 with readiness training and industry orientation programmes. Employment is also promoted through ‘Place and Train’, which is designed to ensure that unemployed receive the training they need to do a particular job. Under this program, an employer hires an unemployed person on the understanding that the government will support training for the person to do a particular job. This avoids the skills-job mismatch that occurs in many countries. Place and train is not a large programme; it involved 723 workers in 2005.

### *Malaysia*

Malaysia is also at full employment, so training tends to focus on pre-employment training as well as skills upgrading for those already working. Those who are

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<sup>52</sup> See Morris (2006: 30) and Xinhua news service, ‘China brings more vocational training to poverty-hit areas’, 18 June 2007.

<sup>53</sup> S\$1.51 = US\$1 in mid-2007.

<sup>54</sup> Assuming that one person occupied one training place during the year.

<sup>55</sup> The salary subsidy is capped at S\$6 per hour. It is not provided for on-the-job training.

unemployed are also supported to upgrade their skills or acquire new ones. The government greatly expanded the number of public tertiary educational institutions from 22 to 71 between 2000 and 2005. Most of the increase can be attributed to the establishment of 34 community colleges, whereas none had existed previously, and an increase in the number of polytechnics from 11 to 20. The period also saw a decline in the number of private colleges from 632 to 532. Graduates from public institutions in skilled and semi-skilled occupations almost doubled over the 2000-05 period from about 21,000 to just below 39,000. There was a similar increase in the number of graduates of private institutions from just below 18,000 to over 33,000. In part, the new colleges and polytechnics are part of the government's commitment to lifelong learning. The colleges, in particular, offer short courses with flexible entry requirements that are suited to adults. In addition, the Open University of Malaysia and another university offer distance and extension education for adults (Malaysia 2006a: ch. 11).

In 2001, a new Skills Development Fund was introduced to encourage the participation of the private sector in the provision of training and to support trainees. The Fund was frozen in 2003 to allow for replenishment and then re-opened in 2005. It currently assists those who leave secondary school after gaining the Sijil Pelajaran Malaysian certificate, normally at age 17, and do not go on to pre-university studies. About 100,000 students leave the school system after gaining this certificate every year. The Fund is designed to encourage them to undertake vocational skills training before entering the job market (Kanapathy 2006: 11; Bernama 2007).

To assist employers in training their workers, the government established a Human Resource Development Fund in 1993. Employers with more than 10 workers in manufacturing and some service sub-sectors contribute to the fund through a training levy of 1% of payroll or 0.5% for small employers. They are then reimbursed a portion of their training costs. The Fund has been found to increase the training activity of firms, notably medium-sized ones, and to raise firm productivity (Tan 2001). It continues to be an important source of training for the private sector. In 2004, for example, it provided RM 200 million (\$52 million) to support 460,000 trainees. The Human Resource Development Board provided an additional \$1.3 million that year for free training to meet industry needs; this training was open to retrenched workers (Kanapathy 2006). At the state level, the Skills Development Centres provide pre-employment and in-service training through a public-private partnership. In 2005, 11,060 trainees completed pre-employment training at these centres (Malaysia 2006a: 248). The Small and Medium Industries Development Corporation (SMIDEC) also operates a skills development programme.

Recognizing the growing problem of graduate unemployment, the government established the Graduate Training Scheme in 2001 with a second phase implemented from 2003. The scheme offered industrial attachments and a monthly allowance of RM500 (\$131). By early 2005, the schemes had allowed 22,000 unemployed graduates to be trained (Kanapathy 2006: 9-11).

Thus, the two Southeast Asian countries (Singapore and Malaysia) are unique in that they generate funds for training through a mandatory payroll levy. The funds are used to train existing workers but training is also offered to the unemployed. The two countries do not provide unemployment insurance but instead have strong active policies.

Furthermore, unlike India and China, these countries have been private sector oriented of several decades and thus do not need special programmes to retrain surplus public sector workers.

### *Korea*

Korea has a well-developed and focused approach to training, offering financial support to employers and to different categories of the employed and unemployed. The country does not impose a payroll training levy but it does channel funds from unemployment insurance to fund skills training. In 2005, for example, \$1.3 billion was allocated from the Employment Insurance Reserve Fund to training support programmes (Korea 2006b: 23).<sup>56</sup> Those receiving unemployment benefits are not required to enrol in skills training but there are a variety of options open to them and they are encouraged to take up training to increase their employability.<sup>57</sup>

For existing employees or new recruits, the government pays all or part of the training costs. When an employee takes a leave of absence for up to one year, the employer receives a subsidy equal to the training costs and the minimum wage. Special subsidies are also provided for a broad range of workers who: are about to leave their job, are 40 years of age or older, work in a company with fewer than 300 workers, work on contract for one year or less, is a part-timer or is a dispatch workers. The subsidy covers the all or part of the cost of training up to Kw 1 million per year.

Low-interest loans are provided to workers who enrol at junior colleges, university or approved vocational training providers. Finally, a number of subsidies are available to SMEs that train their workers. For example, a long-time employee at an SME who enrolls at college or university can receive up to 2 million won (\$2,150) per semester to a maximum of Kw 8 million (\$8,600) (Korea 2006).

The unemployed can receive a grant to cover the cost of training and transportation. This applies to those who are eligible for unemployment insurance benefits and those who are not. A training allowance, in addition to tuition costs, is also provided for certain disadvantaged individuals, including those in need of rehabilitation, North Korean defectors and the disadvantaged self-employed.

### *Sri Lanka*

In recent years, Sri Lanka has invested heavily to improve vocational and higher education. The government hopes to combat the high rate of youth unemployment, which recently reached 33% for those aged 15-19 and 16% for those aged 20-29.<sup>58</sup> The government has borrowed heavily from the multilateral development banks to finance two major programs. The first program was a seven-year effort to upgrade the vocational training system with a competency-based approach to ensure that the skills acquired by

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<sup>56</sup> Unemployment insurance is called 'employment insurance', in Korea, hence the name of the reserve fund.

<sup>57</sup> There are 3,170 skills training providers in the country, 49 in the public sector and the rest run privately. A third of the private institutions are owned and operated by employers.

<sup>58</sup> The figures are for 2005 (CBSL, 2006: 66).

trainees are relevant to the needs of employers. The program involved the development of curricula, standards and assessment criteria for 45 programs, involving 368 individual courses used at 135 vocational training colleges. The \$38.5 million program was designed to increase the number of training places for rural and urban youth by 20,000.<sup>59</sup>

The second program focuses on university education and unemployed graduates. It is costing \$51 million and will run until 2009.<sup>60</sup> Under one part of the program, Tharuna Aruna II, unemployed graduates are offered an 8-month work placement combined with a 4-month training program. During the work placement, the government provides a training allowance of LKR 4,000 per month while the employer adds LKR 2,000. In addition, the government provides LKR 5,000 per month as a living and travel allowance during the training period. The program aims to help 10,000 graduates secure employment.

Overall, the review suggests that the higher income countries tend to have more established or institutionalized systems for providing and funding skills training. Malaysia and Singapore generate funds from a skills training levy, for example, while Korea is able to allocate money from the Employment Insurance Reserve Fund. While these countries may change and adapt their programs to meet new challenges, those programmes are not time-delimited and are not supported by foreign funding. Instead, they are part of an on-going framework of policies and programs.

By contrast, the three other countries exhibit more of a project-based approach with specific funding commitments, even if they are multi-year. This may demonstrate responsible budgeting, but it is probably also part of the need to address pressing employment challenges (surplus rural labour in China, a neglected unorganized sector in India, retrenched state enterprise workers in China and India, and graduate unemployment in Sri Lanka). In some cases, foreign borrowing is used, instead of internally generated resources. India's Centres of Excellence program and Sri Lanka's university and vocational upgrading programs are supported by loans from multilateral development banks, for example. There is nothing particularly wrong with using foreign funding sources; it may simply be an indication that the needs are large relative to government resources.

### **6.3 Public works**

The six countries offer a range of experiences with employment creation through public works programs. India and China have used such programs in rural areas extensively over the past two decades. Korea and Sri Lanka have used public workers to address specific crises; the Asian financial crisis and the 2004 tsunami, respectively. Meanwhile, the full employment economies of Malaysia and Singapore have had little reason to create

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<sup>59</sup> The Asian Development Bank provided an \$18.8 million loan and two other donors, along with the government, provided the remainder. The project also included the training of teachers, improvements in physical infrastructure and other elements. It was completed in early 2007 (see, Project document, ADB website). To provide some notion of the magnitude of the expansion, a total of 69,000 students were enrolled in all public technical and vocational training programs in 2006 and 32,000 graduated that year.

<sup>60</sup> The World Bank is providing a loan of \$40.3 million. About \$11 million is being used for the one-year placement/training component for unemployed graduates (see, Project documents, World Bank website).

publicly-financed employment. Instead, they have imported labour, notably low-skilled manual labour, for construction and needed infrastructure work. Table 13 provides some comparative data on employment and expenditures.

India has implemented a number of public works programs over the years. The Maharashtra Employment Guarantee Scheme (MEGS) was initiated in the early 1970s to provide relief from a severe drought that afflicted that state. The scheme continued after the drought and has been in operation for over 30 years now. Other schemes were subsequently organized at the national level including the National Rural Employment Programme (NREP) and the Rural Landless Employment Guarantee Programme, which were both merged in 1989 under the central government's biggest scheme to-date, the Jawahar Rojgar Yojana (JRY). That program was restructured into a rural development program and was superseded in 1993 by the Employment Assurance Scheme (EAS) which was modelled on the program in Maharashtra. The EAS focused on drought-prone, desert, tribal and hill areas. Other programs have been launched recently with a focus on food-for-work but some of these are being subsumed under the current government's National Rural Employment Guarantee Scheme (NREGS), the most ambitious undertaking to date.

NREGS was launched in early 2006 for a five-year period. It guarantees, by law, each rural household 100 days of manual work annually at the minimum wage and not less than Rs 60 per day (\$1.46).<sup>61</sup> Thus, an average rural household working the entire 100 days would increase its income by at least \$146 annually. In its first year of operation, each household worked an average of 43 days. Work is provided on a variety of projects related to improving the rural environment with a particular focus on water resources, notably water conservation and harvesting, drought proofing, irrigation, flood control, the drainage of water-logged areas and the renovation of traditional water bodies, including de-silting of tanks. Other activities include land development and all-weather road access.<sup>62</sup>

An interesting feature of the program is that if work cannot be offered in 15 days from the time of application, then the applicant is paid an unemployment allowance. However, the allowance can be as low as one-quarter of the wage rate for the first 30 days and one-half for the remaining 70 days. Unlike most other aspects of the scheme, which are funded by the central government, the allowance is paid by the state governments, thus putting pressure on them to ensure that projects are organized.

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<sup>61</sup> The minimum wage is set at the state level and ranges from Rs. 22.20 per day (US\$ 0.54) in Karnataka to Rs. 100.00 (US\$2.43) in Chandigarh (Ministry of Labour and Employment website).

<sup>62</sup> In addition to NREGS, the current government's other major program for the poor is the Unorganized Sector Workers' Social Security Bill, 2007. Introduced into Parliament in September 2007, the bill is designed to both consolidate a number of existing schemes and add three major new schemes for those living below the poverty line. The new schemes would provide health insurance, old age pension and injury and disability insurance. The health insurance is expected to cover 300 million informal economy workers and their families. The government expects to later expand coverage of social security to those above the poverty line. Workers will be issued with smart cards for identification and to store information. In this manner, social security is not being arranged through the employer (common in other countries) because the employer (or own account activity) in the informal economy is not registered with government.

The scheme began operations in 200 of the country's 603 districts and provided employment to 21 million households in its first full year of operation (2006-07). That represents about 15% of all rural households in the country and is equal to 50% of all rural households classified as 'below poverty line'. The scheme is being expanded to another 130 districts in 2007-08 and the rest of the country in subsequent years. In the first year, total expenditure, including administration, the organization of projects and wage payments, was \$2.15 billion.<sup>63</sup> The program is a major component of the current central government's *aad admi* or 'common man' platform on which it won the 2004 general elections. The scheme is a central government initiative but is implemented through the states and with the active involvement of district and *panchayat* (local government) structures through which workers are registered and work is organized.

China has used public works to support rural employment and poverty alleviation for more than two decades. Instead of wage payments, the work is to be remunerated by local governments with in-kind payments of food, clothing, consumer goods and even industrial goods. The approach was adopted in the mid-1980s, following surplus food harvests, and it superseded earlier welfare approaches to poverty reduction. As such the process is referred to as *yigong-daizhen* which means 'to offer job opportunities instead of sheer relief'. It is also referred to simply as 'food-for-work'. Between 1985 and 2001, the government spent \$6.5 billion on the program leading to the construction of 207,000 km of roads, improved drinking water access for 43.3 million people and 23.1 million animals, and irrigation of 60.3 million mu of farmland.<sup>64</sup> In addition, the slopes of 83.3 million mu were transformed into terraced cultivation, while soil erosion was contained on 41.5 million mu of land. Finally, small hydroelectric generating stations were built with a combined capacity of 275,000 kw (Ling and Zhongyi 2004: 3).

In the past, workers were often not remunerated for their work. Local governments, which administered the program, sold the goods provided by the central government and used the money to purchase the machinery, tools and materials needed to undertake the public works. The works carried out did help the farmer, however, albeit indirectly. Micro-level analysis suggests that the works supported rural employment in three ways: i) they increased the value and productivity of the land which stabilised farm employment; ii) they increased the demand for labour within farm communities by 6 per cent.; and, iii) they provided added income (from output) that allowed farm households to cover the travel expenses needed to undertake some off-farm employment (Ling and Zhongyi 2004: 49). As such, public works in China has been seen as a means to build rural infrastructure, raise farm output and reduce poverty, rather than as a direct approach to employment creation. (In India, by contrast, there is more emphasis on the wages provided, although improved infrastructure should also help to raise farm income.) Since the early years of the current millennium, the practice in China has changed to ensure that

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<sup>63</sup> Figures provided here and in the above paragraphs are from the official NREGA website, Government Budget documents and from the text of the National Rural Employment Guarantee Act, 2005. The Government allocated \$2.76 billion for the scheme in 2006-07 and \$2.93 billion in 2007-08.

<sup>64</sup> Total spending in Chinese currency is 56.9 billion yuan. 15 mu equals one hectare.

workers are paid. In 2004, for example, a total of 1 billion yuan was paid directly to farmers for work performed on public works projects.<sup>65</sup>

**Table 13: Indicative figures on employment-generating public works programs**

Country	Program	Year	Annual expenditure (\$ millions)	% of total government expenditure	Employment* (millions)	% of workforce
1	2	3	4	5	6	
India	NREGS	2006	2,200	0.0240	21.00	.04699
Korea	Fin. crisis	1998-2000	1,393	0.8935	0.95	.00004
China**	General	2004	121	0.0004	n.a.	--

**Sources:** for Cols. 1, 2, 3 and 5 see text, programs and years selected based on data availability; Col. 4 calculated with figures on 'Government final consumption expenditure' World Bank WDI; Col. 6 calculated with ILO Laborsta, 'Economically active population estimates and projections', ver. 5; \*denotes the number of participants employed for the entire year or a portion thereof; \*\*wages only

Korea has recently used public works to cushion the effects of economic crisis, namely the Asian financial crisis. Unemployment, below 3% since the beginning of the 1990s, rose to 6.8 % in 1998 and 6.3% the following year. The government responded with a number of measures including public works projects. The projects were designed for those who had not made the required contributions to unemployment insurance and yet were also not eligible (too wealthy) for means-tested social assistance. Thus the government used public works to deal with a temporary crisis in the labour market and was able to reach those who could not obtain assistance from existing UI and social assistance programs. Many of those involved had worked in small enterprises or in informal activities or were recent graduates. The main criterion was they had to be the main breadwinner and between 30-50 years of age, or disabled. While the work did involve such traditional activities as infrastructure maintenance, including cultivating forests and building or repairing small public facilities, work was also organized at community centres and welfare institutions, including teaching children in after-school classes. For the computer literate, a third area of work was the computerization of data at government departments. In the three principal years of the program, 1998-2000, work was provided for 2.58 million participants. A participant would register for a period of three months and was eligible for two more periods. Because government finances were in good shape at the beginning of the Asian crisis, public money was available, with local governments and the central government sharing the costs 30%-70%, respectively. The first year was actually financed by the salary cuts of public employees (see: Kwon 2002).

Since 1996, Sri Lanka has offered income transfers and other assistance to poor households under a program called *Samurdhi*. The income transfers take the form of food stamps that are redeemed at government cooperatives. About 41% of all Sri Lankans receive support from the program, even though the poverty rate is only 23% (World Bank 2006: 65-71). Households receiving benefits are required to contribute labour to

<sup>65</sup> Information on total wage payments and current practice was provided by the ILO's Beijing Office based on information from the National Development and Reform Commission and the Ministry of Agriculture.

community maintenance projects, such as gravelling a road, repairing a school roof, etc. Where no projects are organized the labour is not demanded. In addition, larger capital projects, often executed by a third party, are organized by the Labour Intensive People's Projects<sup>66</sup> of the *Samurdhi* program. Wages are paid for this work. Projects focus on irrigation, dams, wells, bridges and roads mainly in the dry and rural areas. In 2006, some 370 projects were organized.<sup>67</sup>

In addition to this on-going program, cash-for-work projects were established by donors and NGOs to assist with recovery from the 2004 tsunami. The recovery effort included three successive phases: relief, cash-for-work and sustainable livelihoods. This approach limits dependency and help victims to take up productive employment, including alternative self-employment outside of the fisheries. The cash-for-work activities were used to clear debris and rebuild buildings, roads and other infrastructure. By mid-2007 such activities had been or were being phased out. In this way, the use of public works during a crisis was similar to the Korean experience.

#### **6.4 Promotion of self-employment**

Like skills training, the promotion of self-employment is not merely a labour market policy but is also part of a government's wider effort to support economic development. Self-employment is promoted as part of entrepreneurship promotion, which is part of small business development, which is part of industrial policy. It is about building a strong private sector that, in addition to creating jobs, can generate output, move the economy from agriculture to manufacturing and services, increase exports and ultimately support a strong economy. Among our six counties, we find that self-employment and small enterprise development are strongly linked to employment generation and that in others, it has as its goal the broader development of the economy.

Malaysia are promoted entrepreneurship as part of a strategy to improve the economic position of ethnic Malays ('bumiputera') relative to ethnic Chinese and to a lesser extent ethnic Indians. These two latter groups came to Malaysia under a British colonial policy that favoured ethnic-economic differentiation. The Malays were confined to agriculture but encouraged to join the civil service while Chinese migrants first came to work in the tin mines but were given freedom to engage in trade and later manufacturing. Post-colonial economic policy actively encouraged greater Malay participation in the private sector, notably as owners (Ariff & Abubakar 2002). Affirmative action policies have been pursued for decades, notably after the ethnic riots of the later 1960s. In 1995, some of these efforts were organized under a new Ministry of Entrepreneurship that now also includes cooperatives. A year later, the government set up a new agency to direct its efforts on small enterprises with less emphasis on Malay promotion. This agency, the Small and Medium Industries Development Corporation

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<sup>66</sup> The program is know as *Randahadiya Nildiyawara*. Some government departments, notably the Irrigation Department, support job creation through their projects. In addition, a large EU-UNOPS-ILO project is currently using an employment-intensive approach to build or improve rural infrastructure. As a result of these different initiatives and the lack of accurate data, Sri Lanka is not included in the table.

<sup>67</sup> Figures obtained from government documents.

(SMIDEC), now Overall, Malaysia's enterprise support is oriented toward industrial and implements many of the core government assistance programs in this area.

Malaysia has slightly more than half a million enterprises of all sizes. Some 99% of these are classified as SMEs and the bulk of these (60%) are engaged in the retail, wholesale and restaurant trades. In the manufacturing sector, SMEs account for about 30% of both output and employment. SMIDEC implements a number of programs that support both enterprise start-up and expansion. Technology improvement, market access and use of ICTs are some of the main thrusts of its programs. The corporation provided a total of 1,254 matching grants to enterprises in 2005, worth a total of just over \$5 million. Only two grants were provided specifically for start-ups, however. Through its credit programs, a total of 148 loans were approved that year, worth a total of \$23 million. An undisclosed number of these were for start-ups. In the latter part of the year, various loan programs were consolidated under a new SME Bank, which provides credit at 4% with a 15-year maturity (SMIDEC 2005). Enterprises also have access to various other programs operated by ministries commercial development. There is currently little specific emphasis placed on employment creation.

Like Malaysia, Singapore generally does not view enterprises development, including the promotion of start-ups, as an employment generation activity. Most of the public schemes for enterprises are organized through SPRING, a government agency designed to "enhance the competitiveness of enterprises" through support for productivity and product and service innovation.<sup>68</sup> Employment creation may be a by-product of enterprise innovation but it is not the focus. The Ministry of Manpower, through its Workforce Development Agency, has one small program called the Self-employment Assistance Program, begun in 2005. It provides assistance to mature, lower-educated jobseekers. From its first batch of ten participants, eight were able to start businesses in early 2006.

SPRING organizes and collaborates with other organizations on a wide range of activities that support enterprises, including start-ups.<sup>69</sup> Three of its financing schemes are noted here. The first is the Micro Loan Programme which provides term loans for up to four years to enterprises with less than 10 employees. The programme is administered through 14 banks and other financial institutions. A second scheme is the Entrepreneurial Talent Development Fund which targets graduates of the country's nine institutes of higher learning (IHL), notably polytechnics and universities. For every S\$1 contributed by the student, the IHL will contribute the same amount and SPRING will provide S\$3 in the form of a grant to a maximum of S\$50,000. The venture must not be more than three months old and must propose products or services that are not already in the marketplace. A third scheme is for innovative new firms with potential for success in international markets. The Startup Enterprise Development Scheme (SEEDS) matches, dollar for dollar, an investment by a third-part in an innovative enterprise that is less than three years old. The third-part investment must be more than S\$75,000. SEEDS can provide up

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<sup>68</sup> The quote is from SPRING's website. The agency is also the country's product and service standards body.

<sup>69</sup> See [www.spring.gov.sg](http://www.spring.gov.sg)

to a maximum of S\$300,000 and it obtains an equity stake in the firm that it holds for several years and then divests.

In addition to these and other financial and non-financial schemes, SPRING works with four business membership organisations, each of which operates an Enterprise Development Centre. The centres offer consulting, advice and other activities in its area of expertise. One of the organizations is the Association of Small and Medium Enterprises, which runs a program to turn business ideas into new ventures.<sup>70</sup>

For an industrialised country, Korea has a high level of self-employment; 27% of all employed persons. This is more than double the rate for many other OECD countries. For example, the rate is below 12% in U.K., Japan, Germany, Sweden and the U.S. (Korea 2006b: 12). Support for enterprise development is organized through a dedicated agency, the Small and Medium Business Administration (SMBA) which was established in 1996 and is the responsibility of the Ministry of Commerce, Industry and Energy. As in the case of other countries, SMBA provides a variety of activities that are aimed at increasing the competitive success of smaller enterprises. Some of these efforts are designed specifically to support new start-ups.

In Korea, young people receive an early introduction to the world of business ownership. 'Biz-Cool for Teenagers' is a pilot program that introduces youths to the basics of start-up, management and finance. So far it has involved 80 middle and secondary schools and 20,000 participants. At the university level, SMBA provides funds and training for Entrepreneur Clubs to inspire and encourage the country's future entrepreneurs. There are currently 518 such clubs (a university may have more than one) with a total 16,000 members. At graduate school, five universities have run pilot programs in entrepreneurship training at the graduate level. In addition, business incubators have been established at universities and research institutes to support new business ventures. There are 270 such incubators across the country supporting 4,300 businesses. The latter are provided with land, consulting services, marketing education and other support. Because the working conditions in small enterprises are often lower than in large companies, SMBA has also organized an 'On-site Working Conditions Improvement Program' which designed to reduce the negative impressive of SME employment amount the labour force. Overall, the SMBA has a range of programs to help existing enterprises in the areas of skills, technology, marketing, finance, etc.<sup>71</sup> Procedures for setting up a business have also been streamlined.

Unlike higher income countries with tight labour markets, China does consider self-employment and small enterprise development as key aspects of employment policy. Self-employment and SME development are also mentioned in the government's 2004 White Paper on 'China's Employment Situation and Policies'. More recently, the new Employment Promotion Law includes support to SMEs, notably through government provision of small loans and policies to encourage financial institutions to lend to smaller borrowers.<sup>72</sup> Local governments may also pay out unemployment benefits in lump-sum

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<sup>70</sup> The other organizations are: Singapore Manufacturers Federation, Singapore Chinese Chamber of Commerce and Industry and the Singapore Malay Chamber of Commerce and Industry.

<sup>71</sup> For an overview of its programs, see [www.smba.go.kr](http://www.smba.go.kr)

<sup>72</sup> The law was passed in late August 2007. An English translation was not available at the time of writing.

so that it can be used as seed money for starting a small business. For example, in Kaifeng City, Henan province, the pay out is provided when the individual presents a business licence for a new venture (ISSA 2008).

China has promoted self-employment among workers laid-off from state enterprises. This effort has been supported since the late 1990s under the Project on Employment Promotion (PEP) and the Start and Improve Your Business (SIYB) program, both supported by the International Labour Organization (ILO). These programs combined business training with a credit guarantee scheme. Under a massive roll-out of the activities beginning in 2004, 'Start Your Business' or related training was provided to 760,000 people over a three-year period. Most trainees were laid-off workers (91%) but migrants, unemployed graduates and persons with disabilities also learned the basics of how to start and operate a micro or small business. The training was organized through the Ministry of Labour and Social Security, working with local labour bureaus, training institutes and other agencies. Donors provided technical support and a portion of the funding. Out of this training, an estimated 241,000 new businesses were started. About 160,000 trainees were already operating businesses at the time of the training and thus the program helped them to stabilise and improve their vulnerable operations. As each business (new or existing) employed about 2.75 people, the program created or safeguarded employment for an estimated 1.1 million people.<sup>73</sup> Donor support and technical assistance concluded in 2007 and the training activities are now being continued by the government.

In India, the Ministry of Labour and Employment has established Self-employment Promotion Cells in 23 of its more than 900 employment exchanges. These cells encourage jobseekers to pursue self-employment and indicate what support is available.<sup>74</sup> Like many countries, actual assistance is provided by a separate ministry. In India's case, it is the Ministry for Micro, Small and Medium Enterprises. The ministry, often in association with other agencies, supports 23 schemes ranging from technology and skills upgrading to credit and capacity building of associations and entrepreneurship training institutes.

One long-standing program is the Prime Minister's Rozgar Yojna which subsidizes small loans to unemployed people below the age of 40 to allow them to start up businesses. The government provides a subsidy that covers 15% of the loan amount. In the 14 years since its inception in 1993, the program has subsidized 2.8 million loans and supported the creation of an estimated 4.2 million jobs (calculated at 1.5 jobs per loan). In 2006, some 328,000 loans were disbursed. There is no record of the long-term success of these ventures. A study by the Reserve Bank of India in 1997 revealed, however, that the loan recovery rate was only 53%. A subsequent review in 2001 found that the rate had dropped to 34%. Recovery rates were very low in the north-eastern states, in the range of 3-32% in 1997 and 1.4-26% the following year.<sup>75</sup> Another program

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<sup>73</sup> The figures are preliminary and taken from Atherton *et al.* (2007). The impact figures are probable estimates as opposed to actual recorded results.

<sup>74</sup> Chandra *et al.* (2006: 50) indicate that the cells "lack innovative approaches" to guiding jobseekers to pursue self-employment.

<sup>75</sup> Figures are provided on the Ministry of MSME website. The years indicated are the fiscal years, from April to March.

is the Rural Employment Generation Program which subsidizes new investments by providing ‘margin money’ (a portion of the project cost) that is then supplemented with a loan from a financial institution. The funds are provided by the Khadi and Village Industries Commission to small khadi (textiles) and other enterprises. The program began operations in 1995 with the goal of creating employment for two million people. By early 2005, it had created an estimated 2.8 million jobs and continues its operations.

In Sri Lanka, the Samurdhi program is a social safety net scheme that provides direct income transfers to poor households. A portion of the transfers is deposited in a local Samurdhi bank, which is a federated savings group of Samurdhi recipients. The funds in these banks are lent to the members both for consumption loans but also for income-generating (self-employment activities) activities. Large public sector banks, notably the Bank of Ceylon and the People’s Bank, have a variety of micro loan programs to support self-employment. The new SME Bank, set up by the government and operational since 2005, also provides such loans.

The Ministry of Rural Industries and Self-Employment Promotion has, since 2005, implemented the National Programme of Rural Industries and Production Villages Development. One of the four objectives of the program is to reduce acute unemployment in rural areas. The program supports the provision of modern technology, machinery and equipment, the development of infrastructure, the building of market relationships and the provision of credit to develop rural industry. The total budget for three years is US\$ 8.7 million, with targeted beneficiaries equal to about 15,000 people in 370 villages.<sup>76</sup> Multilateral and bilateral agencies have also worked with government to support self-employment. For example, the Enter-Growth Project, an collaboration of the ILO and the Ministry of Enterprise Development and Investment Promotion, with Swedish aid funding, supports micro and small enterprises in three areas: market access, policy and regulatory reform and enterprise culture. The three-year project cost US\$ 4.7 million and was to be completed in 2008.

Sri Lanka has a 20-year history of providing entrepreneurship training in various forms and through various agencies (see, Weeratunge 2007). The largest programme is delivered through the Small Enterprise Development Division in the Ministry of Youth Affairs. It trained 143,000 youths in the period 1994-2004.<sup>77</sup> The ILO’s Start and Improve Your Business program trained about 9,200 people in the period 2000-04. Its overall business start-up rate is 31%.<sup>78</sup> The CEFÉ program of the German aid agency, GTZ, has also provided training. Its business start-up rate is 25% and its business expansion rate is 41%. There are other programs provided by NGOs and micro-finance institutions, along with private sector initiatives, such as LiveWIRE supported by Shell, the oil company. It has hosted 500 half-day Bring Ideas Workshops to encourage youth to start businesses.

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<sup>76</sup> Information obtained from the website of the Ministry of Rural Industries and Self-employment Promotion.

<sup>77</sup> Time periods are used in this paragraph for statistical purposes; they are not meant to indicate that programs are no longer operational.

<sup>78</sup> The start-up rate is the percentage of trainees who start a business after completing the training. The rate is affected by the fact that many existing entrepreneurs will take courses, such as Improve Your Business, which is part of the SIYB package of courses.

## 6.5 Employment subsidies

Countries also provide various types of subsidies and tax credits to support hiring. Some of these are related to training and have been discussed in Section b above. Korea has the most advanced program, which it developed to deal with the rise in unemployment following the financial crisis of the late 1990s. Singapore and Malaysia, with low levels of unemployment, focus their efforts on training, although the former does have an interesting program for older workers. China offers various schemes. India and Sri Lanka do not offer subsidies or tax credits to encourage hiring.<sup>79</sup>

Korea has a developed system of employment or workplace subsidies to encourage hiring, retention and re-employment. The Re-employment Subsidy provides Kw 2.2 million (\$2,400) to an employer that re-hires a worker who was retrenched due to restructuring and was unemployed for at least six months. The subsidy is lower for larger companies (Kw 1.8 million). An employer who hires someone who is not a former employee and has been unemployed for at least six months can apply for a Subsidy for Employment Promotion of Long-term Jobseekers. The subsidy is 600,000 won (\$650) per month for six months and half that amount for the following six months. The government also provides a Subsidy for the Adoption of Working Hour Reduction by Small and Medium Enterprises. Such enterprises are eligible if they move to a five-day work week at least six months ahead of the government's schedule. A subsidy of 1.5 million won is provided per quarter for each new worker hired to accommodate the shortened workweek of existing employees. The Employment Retention Subsidy is designed to reduce retrenchment caused by a slowdown in production. Employers are eligible if they: shut down production for more than two days per month; send workers for training; grant them paid or unpaid leave of absence; or stop production to re-equip, conduct essential maintenance or convert into a new line of business.

In Singapore, incentives are primarily provided to youth and others through the various training programs noted in Section b above. In addition, with low population growth and an ageing workforce, the government is also concerned about its older or 'mature' workers. It has established 'Advantage' which provides incentives to employers to hire workers 40 years of age and older and to re-employ workers past the retirement age of 62. The scheme was launched in late 2005 and by early 2006 some 40 companies signed up to employ or re-employ 1,500 'mature' workers. The government has committed S\$28.9 million to the program over 29 months ending in March 2008. Each company is eligible for funding up to S\$300,000.<sup>80</sup> In Malaysia, publicly listed employers are allowed a double taxation deduction for allowances paid to participants under the Graduate Training Scheme (noted in Section b above).<sup>81</sup>

In China, the government has implemented fiscal and tax preference policies since 2002 to support re-employment. These policies are promoted by the central government and implemented through local governments, which set their own criteria. Both levels of government provide funding. One example is a subsidy paid to employers who employ workers who were either re-trenched from state enterprises or have difficulty finding

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<sup>79</sup> That is, the author found no evidence of such subsidies or credits

<sup>80</sup> Information provided by government websites.

<sup>81</sup> See Malaysia (2006b: 12).

work. In addition, the government may pay the employer's social security contribution. For example, in Chongqing City, a municipality of 32 million people, the local government provides a subsidy of 1,000 yuan (US\$135) per year to an employer for each person it hires who is unemployed, from a family without employment and receiving social assistance. In addition, the government pays the employers' contribution to pension, health care and unemployment insurance for such workers. The government will also cover two-thirds of social insurance premiums for women over 40 and men over 50 who opt to take up flexible employment (often self-employment) (see ISSA 2008). The central government allocated about US\$1.45 billion to re-employment subsidies in 2005 alone. The contribution from the local government is normally 2.5 to 3 times the central government contribution (ibid.).<sup>82</sup>

## **VII. Toward a country typology**

Each country has its own system of employment policies that provide varying degrees of flexibility for employers and security for workers. Do we see evolving a balance of these two objectives in the labour policies of selected Asian countries? To some extent we do. Indeed, the preceding analysis has highlighted the sub-regional similarities. The countries were not selected because they might indicate such a sub-regional pattern. In fact, the opposite was true in some cases. Singapore might be different from Malaysia because it is a richer, more economically advanced country with a high external orientation and a focus on services, given its entrepot position. Sri Lanka might be different from India because of its smaller size, its generous education and welfare policies and its lower rural orientation. Korea and China appeared to be at much different states of development, the former with its own world-competing companies in automobiles, steel, shipbuilding and electronics; the latter industrializing rapidly with heavy foreign investment and yet still possessing a large rural workforce. These various differences are important, but employment policies in our selected cases show striking sub-regional patterns. The analysis below reflects the depictions contained in Table 1, at the beginning of the paper.

### **7.1 South Asia: India and Sri Lanka**

The prominent characteristic of the two South Asian countries is their adherence to policies regarding administrative authorization for retrenchment. There is pressure to change the current requirements, notably from employers, and change may occur in the coming years. The extent to which such legislation protects workers is debateable; however, as it only applies to enterprises with 100 workers or more, and employers use voluntary retirement, unauthorized closures and other methods to reduce employment. Reforms are not likely to come about unless more supportive passive policies are offered in exchange. In this regard, there may be new social bargains struck in the coming years, notably as both countries seek to increase their attractiveness as destinations for foreign investment. The establishment or, in the case of India, the expansion of unemployment insurance may assist in the social bargaining process. As it stands, the two countries are weak in providing this type of passive labour market policy but stronger in other types.

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<sup>82</sup> The figures may also include support for self-employment and re-training.

They have statutory gratuity benefits and in the case of Sri Lanka high severance pay and support through the Employees' Trust Fund. The development of unemployment insurance may require some rationalization of these other benefits, which does not need to result to a decline in the overall benefits received by workers. Both countries have been working recently on improving active measures. In particular, India is undertaking a massive experiment in this regard with its National Rural Employment Guarantee Scheme. Sri Lanka and India have large informal sectors (70% and 93% of the workforce, respectively) where legislation does not reach. *Policies for the formal sector in these two countries constitute a system of employment security (not labour market security) with strong aspects of EPL and generally weak active and passive policies.* However, the NREGP, as an active policy, does provide an element of security for the rural economy.

## **7.2 Northeast Asia: China and Korea**

These two countries are similar in that they have carried out tremendous change in employment policies over the past decade. They are strong reformers and have combined a decrease in the guarantee of employment with new passive policies (the introduction of unemployment insurance) and strong active policies. Lifetime employment is no longer guaranteed in the two countries, but other forms of protection, including laws for non-regular workers, have increased. The two countries differ in that China is still undergoing a massive restructuring of the labour market, notably with the migration of surplus rural workers into the cities. It has put in place measures to cope with this transition and with the move from public to private ownership. While the two South Asian countries have yet to undertake serious change in their labour laws, the two Northeast countries have made those changes and may now be entering a period of consolidation, with some expansion in coverage in China. *These two countries are characterised as providing a balanced system of labour market security, with medium employment protection.* Active and passive measures are stronger and cover more of the workforce in Korea, relative to China.

## **7.3 Southeast Asia: Malaysia and Singapore**

The two countries from Southeast Asia are similar in that they have fairly effective government and have developed rapidly. Labour markets are tight and unemployment is low, although there is a concern about graduate unemployment in Malaysia. Such unemployment is sometimes an indicator of success, however; as young people have had a chance to get an education and will not settle for manual jobs or the work that their parents did. Both countries have rejected unemployment insurance, even though they could probably afford it and could administer it for a broad section of the workforce, given the small informal economy in both countries. They both administer a payroll levy that supports skills training and it is used, in part, to help the unemployed. Both countries do not restrict employers from retrenching workers and do not even require employers to notify the government. *These countries provide labour market security through strong active policies, while employment protection is low and passive policies are weak.*

To these general conclusions, it is necessary to add three important caveats. First, the depiction of the two countries in each sub-region does not necessarily apply to all

countries in that sub-region. This is probably particularly true for Southeast Asia but it may be true for the others as well. Second, the analysis has included examples in which compliance has not been comprehensive and programs have not been fully effective. More detailed analysis on compliance and effectiveness in all the areas covered by this review may alter the characterization provided above. And third, notwithstanding the good efforts of government, there are employers that engage in illegal and unscrupulous labour practises. The recent revelations of the use of forced labour in some Chinese brick factories and the on-going problem of child labour in India are examples in this regard.<sup>83</sup>

## VIII. Conclusion

This paper has sought to apply the concept of flexicurity to labour policies in six Asian countries. A key question is whether the concept is relevant to developing and newly industrialised countries. An important aspect of that question is whether the large informal and rural economies in these countries, which are not covered by many aspects of labour legislation, would pose problems for the application of these concepts.

It is certainly true that flexicurity applies to the three countries where formal employment accounts for a large majority of total employment. These countries, Korea, Singapore and Malaysia, do have in place many of the policies that are in practise in other parts of the developed world. This is due in part to the fact that Korea and Singapore have reached the status of developed countries and Malaysia is not far behind. Thus, for newly industrialised countries, the concepts apply rather well and provide a useful approach to depicting their systems and the trade-offs and complementarities that might exist. This comes out clearly in the case of Korea which eliminated the guarantee of lifetime employment in the late 1990s but provided strong active and passive policies to compensate.

The three other countries, China, India and Sri Lanka, are more difficult to depict because labour legislation does not cover a large portion of the workforce in the informal economy or is not fully enforced in the formal economy. A dual economy analytical approach may be needed to analyse such countries. The distinction between the two 'economies' was made in this survey but a full dual analytical approach was not been created or applied. This was partly due to the fact that despite the differences, it is not always possible to separate the policies as some related to both 'economies'. Furthermore, such a dual approach would make comparisons with more developed economies difficult. What is apparent, however, is that governments rely less (or not at all) on labour regulation for the informal economy and more on active policies such as public works programs, skills training and self-employment promotion. India's National Rural Employment Guarantee Scheme is a prime example in this regard. It provides legally guaranteed and formally organized employment of a limited duration for people who work in the 'unorganized sector' for most of the year.

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<sup>83</sup> See, 'Chinese search for missing slaves', BBC website, 22 June 2007. In India, the most recent census (2001) indicated that 12.5 million children aged 5-14, out of a cohort of 252 million, were working (Ministry of Labour and Employment, 'Elimination of child labour – Backgrounder', 8 December 2004).

Generally, there does appear to be pressure on countries to ensure that labour regulation is sufficiently flexible and not financially onerous for employers. Such pressure has traditionally come from domestic employers but it also emanates from foreign investors (or the perception of such investors) and sometimes from international financial institutions. A key issue in this regard is whether government approval should be required for an employer to retrench workers. The extent to which such a requirement protects employment is unclear. In any event, proposed changes should not be viewed in isolation from other policies. Instead – and using a flexicurity approach – a decrease in employment security might be addressed by increasing labour market security.

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## **Interviews**

Interviews and discussions were conducted with key informants of government, trade unions and employer’ organizations in Delhi and Colombo.