Selected Interventions to Promote Higher Quality Employment

Countries within the Asia and the Pacific region are at widely different stages of development and are quite varied in the structure of their labor markets, their economic landscapes, and the creation of higher quality employment. Some countries may need active intervention and specific labor market policies while others will need to remove constraints on firms’ productivity in order to generate more and higher quality employment, raise wages, and provide better work environments. This section focuses on some key policy options that can help move Asia toward higher quality employment. The summary in Table 7 identifies indicators that may suggest the types of policies that are needed.

Ultimately, a sustainable increase in higher quality employment is possible only with sustained growth of labor productivity. Growth of labor productivity makes it easier for employers to pay higher wages and improve working conditions. Aggregate productivity can grow through both increased real productivity per worker in individual sectors of the economy (such as agriculture, industry, and services) and a shift of output and labor from lower productivity sectors (typically, agriculture) to higher productivity sectors (industry and services).

Improving the quality of employment can be approached from several directions. The first is indirect demand-side policies that improve productivity and increase the quality of working conditions (Osterman 2008). The second is supply-side policies that improve human capital and move people into more productive activities, including through migration from rural to urban areas. The third is a broad set of direct social protection policies that allow workers in both formal and informal sectors to raise their living standards and improve the quality of their work conditions.

Table 7
Classification Table (based on most recent year of data available)

| Economy                  | Real GDP Per Capita (2005 $PPP) | High Informal Employment (>50% of total employment) | High Agriculture Employment (>40% of total employment) | Low Labor Productivity (<5,000 2005$PPP per worker) | Low Industry Productivity (<5,000 2005$PPP per worker) | Low Services Productivity (<5,000 2005$PPP per worker) | High Savings Rate (>30% of GDP) | Age Dependency Ratio (increasing) | Small Urban Population (<50% of total population) | Low Schooling (<8 average no. of years of schooling) | Export Share to GDP (<25%) |
|--------------------------|---------------------------------|----------------------------------------------------|-------------------------------------------------------|---------------------------------------------------|-----------------------------------------------------|--------------------------------------------------------|--------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------|
| Nepal                    | 1,049                           | ...                                                | ...                                                   | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |
| Bangladesh               | 1,286                           | ...                                                | ...                                                   | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |
| Cambodia                 | 1,739                           | X                                                  | X                                                     | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |
| Tajikistan               | 1,791                           | X                                                  | X                                                     | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |
| Kyrgyz Rep.              | 2,073                           | X                                                  | X                                                     | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |
| Lao PDR                  | 2,048                           | ...                                                | ...                                                   | X                                                 | ...                                                 | ...                                                   | X                               | X                               | X                               | X                               | X                         |
| Papua New Guinea         | 2,072                           | ...                                                | ...                                                   | X                                                 | ...                                                 | ...                                                   | X                               | ...                             | X                               | X                               | X                         |
| Solomon Islands          | 2,312                           | ...                                                | ...                                                   | X                                                 | ...                                                 | ...                                                   | X                               | X                               | X                               | X                               | X                         |
| Pakistan                 | 2,369                           | X                                                  | X                                                     | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |
| Uzbekistan               | 2,611                           | ...                                                | ...                                                   | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |
| Viet Nam                 | 2,682                           | X                                                  | X                                                     | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |
| India                    | 2,970                           | X                                                  | X                                                     | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |
| Mongolia                 | 3,198                           | ...                                                | ...                                                   | X                                                 | ...                                                 | ...                                                   | X                               | X                               | X                               | X                               | X                         |
| Philippines              | 3,216                           | ...                                                | ...                                                   | X                                                 | ...                                                 | ...                                                   | X                               | X                               | X                               | X                               | X                         |
| Indonesia                | 3,813                           | X                                                  | X                                                     | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |
| Samoa                    | 4,000                           | ...                                                | ...                                                   | X                                                 | ...                                                 | ...                                                   | X                               | X                               | X                               | X                               | X                         |
| Vanuatu                  | 4,030                           | X                                                  | X                                                     | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |
| Tonga                    | 4,055                           | ...                                                | ...                                                   | X                                                 | ...                                                 | ...                                                   | X                               | X                               | X                               | X                               | X                         |
| Sri Lanka                | 4,333                           | X                                                  | X                                                     | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |
| Georgia                  | 4,335                           | X                                                  | X                                                     | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |
| Bhutan                   | 4,643                           | X                                                  | X                                                     | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |
| Armenia                  | 4,794                           | X                                                  | X                                                     | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |
| Turkmenistan             | 6,576                           | ...                                                | ...                                                   | X                                                 | ...                                                 | ...                                                   | X                               | X                               | X                               | X                               | X                         |
| Maldives                 | 4,972                           | X                                                  | X                                                     | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |
| China, People’s Rep. of | 6,200                           | ...                                                | ...                                                   | X                                                 | ...                                                 | ...                                                   | X                               | X                               | X                               | X                               | X                         |
| Thailand                 | 7,290                           | X                                                  | X                                                     | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |
| Azerbaijan               | 8,752                           | X                                                  | X                                                     | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |
| Kazakhstan               | 10,452                          | X                                                  | X                                                     | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |
| Malaysia                 | 12,724                          | X                                                  | X                                                     | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |
| Korea, People’s Rep. of | 25,483                          | X                                                  | X                                                     | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |
| Hong Kong, China         | 40,599                          | X                                                  | X                                                     | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |
| Singapore                | 45,978                          | X                                                  | X                                                     | X                                                 | X                                                   | X                                                     | X                               | X                               | X                               | X                               | X                         |

Notes: ... = data not available, GDP = gross domestic product, Lao PDR = Lao People’s Democratic Republic, PPP = purchasing power parity.
Source: Based on summary statistics from Table 4.
Trade and Globalization

The modern industrial and service sectors provide jobs for only about 57% of the labor force in developing Asia, compared with more than 96% in industrial nations. Greater promotion of trade and FDI is important for low- and middle-income countries to effectively raise the quality of employment. Low-income countries with low shares of exports relative to GDP need to capitalize on their cheap supply of labor, while middle-income countries with a relatively well-developed export sector may need to move up the value chain so that wages can continue to rise.

FDI and trade have been important vehicles for East Asian countries to increase their economic growth and employment, as exemplified by the PRC. Multinational firms have played an important role in the export-led growth model; many of which have exploited the low-cost labor advantage of East Asian economies, beginning in the 1960s and continuing through today. Ever since the PRC opened its economy in 1978, multinational firms have been a powerful force contributing to its growth.

An interesting and important question Ebenstein (2011) posed is: Do multinational firms result in the creation of higher quality jobs in a developing country? The creation of special economic zones (SEZs), and the extent to which firms in SEZs create higher quality employment, is an interesting case in point. In 1978, the PRC initiated a policy by which key strategic areas and cities were chosen as experimental zones for FDI with privileged status. The initial SEZs were envisioned as small laboratories to explore the economic potential of a further opening of the PRC economy; the chosen cities were able to operate with administrative autonomy from the provincial government, and foreign firms in the SEZs were allowed tax exemptions. The SEZs were strategically located in coastal areas close to islands with capitalist economies, including Xiamen (near Taipei, China); Zhuhai (near Macao, China); and the most successful SEZ, Shenzhen, which capitalized on its proximity to Hong Kong, China. While the areas chosen were convenient to foreign firms, they were by no means already developed. In fact, the government focused on undeveloped cities to minimize resistance to the new policies, and to limit damage should the experiment fail.

The SEZs were spectacularly successful at attracting foreign investment and cheap migrant labor from nearby provinces almost immediately (Yeung et al. 2009). By 1985, the SEZs accounted for more than 20% of the PRC’s FDI. The success of the original four SEZs spurred the government to open 14 coastal cities to foreign investment in 1984, which also began to attract foreign firms attempting to capitalize on the PRC’s cheap labor and goods for lucrative overseas consumer markets.

How successful were the SEZs in terms of increasing labor productivity and real wages of the PRC’s workers, especially those with low skills? Ebenstein (2011) exploited the phased rollout of the PRC’s SEZs and free trade areas across cities as a “quasi experiment” to examine the impact of the SEZs on local labor markets and on the welfare of workers in these cities. He found large increases in firm openings and employment following a city’s conversion to a SEZ or free trade area. He also found that the productivity of workers in firms in the SEZs was higher than that in firms in other cities (Figure 30), and that this gap kept widening after 1980. However, there is no evidence of real wages being higher in SEZ cities than in other cities. Part of the reason for this is that the SEZ cities experienced rising prices (Figure 31). Indeed, Ebenstein found that, between 1988 and 2001, the real wage premium in the SEZs actually decreased.

Figure 30  Trends in Real Labor Productivity in Special Economic Zones and All Other Cities, PRC, 1960–2003

Figure 31  Trends in Prices in Special Economic Zones and All Other Cities, PRC, 1988–2001

PRC = People’s Republic of China.
Source:  Ebenstein (2011).
Ebenstein concluded that the introduction of SEZs in the context of PRC’s huge supply of cheap surplus labor may have led to soaring corporate profits for the multinational companies that operated in the SEZs but provided little real wage benefit to the average worker already residing in these cities. Of course, the valid comparison group may not be workers already residing in the SEZ cities, but instead workers in the rural areas who might not have migrated to manufacturing jobs in such large numbers were it not for the SEZ experiment. Ebenstein’s data did not allow him to estimate the welfare gains for these workers; their gains were probably substantial, especially considering the phenomenal reduction in poverty that the PRC has experienced since 1980. However, the important thing to note is that not all people were necessarily better off from FDI, even though overall welfare may have increased, it may have contributed to undue resentment toward migrants who may be driving down wages and potentially crowding out locals from jobs. However, other literature on the impact of multinational companies on host-country labor markets has not provided substantial evidence that multinationals depress average wages (Flanagan and Khor 2011).

Indeed, at a broader level, it is difficult to see why multinational companies would behave any differently than local firms in terms of promoting higher quality employment and higher wages. Both sets of firms have the same objective (maximizing profits) and are likely to react to price and wage incentives in the same manner. If anything, multinational firms bring enormous firm-specific technical and managerial advantages to developing-country markets that should result in higher levels of productivity in these markets, which in turn should lead to higher wages for workers.

But the general process of globalization, which puts pressure on multinational and domestic firms to continually cut costs in order to stay globally competitive, could affect working conditions and wages adversely. Using unit-level labor force survey data from four developing Asian economies, Maligalig and Martinez (2011) found that jobs with informal arrangements were not exclusively in informal enterprises, and were often found in formal-sector enterprises. As a response to globalization and the pressure to stay internationally competitive, firms in many Asian countries have started adopting more flexible employment arrangements, such as outsourcing components of production lines that result in pervasive informal employment arrangements. For example, Maligalig and Martinez found that about 9 in 100 jobs in Armenia’s formal enterprises were informal, while in Bangladesh, the proportion was 4 in 100, and in two provinces of Indonesia, the incidence was 33% in Banten and 31% in Yogyakarta.

Flanagan and Khor (2011) recently conducted an empirical study to test the causal effect of global trade flows on working conditions. They compared the evolution of working conditions and labor rights in Asian versus non-Asian countries from 1990 to 2008 and analyzed the relationship between labor conditions and international trade and investment flows. They observed that both working conditions (pay, hours of work, and job safety) and labor rights (workplace freedom of association, nondiscrimination, abolition of forced labor, and reduction of child labor) advanced in Asia and the rest of the world during this period when both trade and investment flows grew. As a region, Asia generally scored lower than other parts of the world on most measures of working conditions and labor rights, but that the differences with the rest of the world have been narrowing over time.

Flanagan and Khor found that countries with open trade policies generally had better working conditions and labor rights than countries with closed trade policies (Figures 32–35). In open economies, annual pay per manufacturing worker outside of Asia is almost three times higher than in closed economies; and in Asia, it is almost nine times higher in open than in closed economies. This likely reflects the higher labor productivity in the open economies. Outside of Asia, the fatal on-the-job accident rate in manufacturing and measures of work hours are significantly lower in open economies. In comparison, open economies in Asia have slightly higher hours of work. Labor rights are also generally better respected in open than in closed economies outside of Asia (Figure 33): freedom of association rights are stronger, and child participation in the labor force and measures of forced labor are lower in non-Asian open economies. Only in the case of gender discrimination is there little difference between economies with open and closed trade policies.

Nevertheless, Asian economies with open trade policies generally had better labor rights than did closed Asian economies by the end of the 20th century (Figure 35). In general, the expansion of international trade and investment during the two decades since 1990 has been associated with a broad improvement in working conditions and labor rights around the world. However, openness and expansion are found to have no direct influence on labor rights. All of the improvements are attributed to the indirect effect of rising per capita income.

12 The study used 11 Asian economies (the PRC; Hong Kong, China; India; Indonesia; Japan, Kazakhstan; the Republic of Korea; Malaysia; the Philippines; Singapore; Taipei, China; and Thailand) and 46 developed and developing non-Asian countries in Europe, Latin America, the Middle East and North Africa, and North America.

13 This study did not compare results to assess whether the gap was increasing or decreasing in labor rights between Asia and the rest of the world in open versus closed economies.
and this effect is found to be uniformly true between Asian and non-Asian economies when weighted by the labor force in each economy. Thus, to the extent that trade raises per capita income, it advances both working conditions and labor rights—a trend that is consistent with the general predictions of international trade theories.

The Role of Migration

Structural transformation plays a key role in providing better employment opportunities as there is a limit to how much agricultural productivity can be raised. In most countries, the service and manufacturing sectors have higher rates of labor productivity, and therefore higher wages, than the agricultural sector. Figure 36 shows the value added per worker in 2009 in each of the three sectors for a number of developing Asian economies. In Thailand, for example, value added per worker in industry is more than 10 times that in agriculture. With such large differentials, there is a strong incentive for rural workers to migrate to urban areas. Indeed, historically, an important means of increasing the productivity of rural workers has been to move them to jobs in manufacturing and services that are often based in the urban areas. Low-income countries that suffer from both high rates of agricultural employment and low rates of urbanization may benefit from programs that facilitate migration from rural to urban areas. This can be done by increasing urban employment opportunities and easing the transition from rural to urban areas so that more people can take advantage of the benefits that come from urban environments.
The Asia and Pacific region has seen massive rates of rural–urban migration during the last 4 decades. In 1950, only 16.3% of Asia’s population was urban. It had increased to 24% in 1975, 41.7% in 2009, and is slated to increase to 50% by 2025 (UNDESA 2010). The PRC has experienced some of the largest labor migration flows in human history since implementing economic reforms in 1978—by 2009 alone, 153 million migrant workers were living in urban areas. The migration flow has propelled the PRC’s economic and social transition by increasing labor productivity and restructuring society.

In addition to the direct effect of improved employment opportunities for the migrant workers, the workers who remain in agriculture also benefit. Their marginal productivity rises, as fewer workers are left in agriculture. Remittances from the urban migrants can help raise investment in the rural areas. And the migrant workers’ families benefit from a substantial decline in their consumption and income risk, as they now have more diversified sources of livelihood.

Using a rich panel data set on about 2,000 rural households from three provinces in Northeastern Thailand (surveyed in 2007, 2008, and 2010) and a survey of 643 migrants from these rural households in the Greater Bangkok area in 2010, Hohfeld et al. (2011) found that households whose members migrated to Bangkok experienced a 17%–22% increase in their household income relative to control households whose members did not migrate. Further, the estimated impact was even larger in the poor provinces of Buriram and Nakhon Phanom, at 35% each, and Ubon, at 47%. This provides evidence that migration can substantially improve job and income prospects for households residing in the poorest provinces.

Hohfeld et al. asked those who migrated to Bangkok to assess whether their work conditions had improved in their most recent job. Nearly 75% of the sampled migrants reported that their working conditions had definitely improved since their previous job. Each additional year of schooling the migrant had was associated with a 6% increase in the likelihood of improved working conditions. Conversely, indebtedness was associated with a 28% lower probability of improved work conditions. Upon correcting for self-selection, Hohfeld et al. found that migrants were much more likely than nonmigrants (i.e., those who remained in their rural village) to report an improvement in working conditions. This suggests that, based on the migrants’ own perceptions, migration results in jobs with better working conditions.

Hohfeld et al. also created an index of job quality based on several objective indicators, including job stability; possession of a written or verbal contract; and the availability of life, health, or disability insurance. The empirical results were largely unchanged when they used this index instead of the subjective assessment of improved working conditions as the dependent variable in the analysis. Thus, their analysis indicates that migrants were much more likely than similar people who had stayed in the rural areas to hold higher quality jobs.
In addition to migration within a country, international migration plays a significant role in providing access to higher quality employment for Asian workers. This is especially true when countries fail to provide sufficient employment opportunities for their populations. International migration can help balance disequilibria in the supply of and demand for labor between sending and receiving countries. The migrants often receive higher wages, and their countries of origin benefit from remittances (Lucas 2008).

Migration may also have drawbacks. An increased supply of workers in urban labor markets may put downward pressure on urban wages. Urban employers might not be inclined to improve working conditions if the supply of labor from rural areas is elastic; indeed, a very large oversupply of labor could lead to a deteriorating quality of employment. International migration can lead to significant “brain drain” and could depress a country’s productivity and innovation if the country’s best and brightest people are going abroad. In the receiving country, migration can lead to lower wages in jobs where there is an influx of migrants (Lucas 2008). Of course, with appropriate policies and monitoring of migration inflows and outflows, it is possible to improve welfare. Rural–urban migration can speed structural transformation and allow rural workers access to higher quality employment, while international migration provides a means for workers to access higher quality employment when the home country is not capable of generating sufficient employment opportunities.

Raising Rural Labor Productivity

Given that a large proportion of Asia’s poor will continue to live in the rural areas for the foreseeable future, it is important to not neglect policy for improving the quality of jobs in rural areas. Many lower income countries still have large agricultural sectors that employ over 40% of the labor force and have extremely low productivity. While rural–urban migration is an important means to increase productivity and provide access to higher quality employment, it is not an immediate or the most desirable option for the entire rural population. The main ways to expand opportunities for higher quality jobs for people who remain in the rural areas are to (1) enhance the productivity of rural workers who have ownership of productive assets, and (2) provide access to markets that can ensure sufficient demand for their labor.

Workers who explicitly or implicitly own productive assets will have a greater likelihood of achieving stable and reasonably well-paid employment than workers who do not. Such assets include workers’ own labor, as well as physical assets such as land, financial assets such as working capital, human assets such as education, public assets such as access to electricity and other infrastructure, and social assets such as the organization and coordination of people. How the returns to these assets change depends importantly on the composition of local employment and the extent to which product and labor markets are integrated with the wider world. Credit markets, effective transport, and other forms of basic infrastructure are important to the availability of productive employment.

Among the most important factors that can hamper growth in rural areas are (1) constraints on the use and availability of technology; and (2) an absence or paucity of the value-added manufacturing sector, financial services, and infrastructure. Alleviating these impediments can lead to enhanced productivity of rural workers (Foster 2011).

Technological innovation and value-added manufacturing. Innovations such as a shift to high-value crops, fertilizers that increase agricultural output, and labor saving technology are viable ways to increase productivity in rural areas. Given that there is excess demand for agricultural products outside of the rural market, the improvement in productivity can result in real increases in income for the rural sector.

The use of technology potentially has strong distributional implications. Foster and Rosenzweig (2010) explored scale economies in agricultural India. They show that, over the period 1982–2007 in rural India, mechanization increased substantially, particularly among larger scale farmers. While traditionally the view was that small-scale farmers in rural India were more productive than larger ones, Foster and Rosenzweig showed that, during 1999–2008, larger farmers were more profitable than small-scale farmers after accounting for supervisory costs, potential search costs for off-farm employment, and the potential endogeneity of land with respect to productivity. This profitability was found to be largely a result of the labor saving that was possible through increased mechanization. They noted that the maximal profitability was achieved at farm sizes of about 4 hectares.

As agriculture innovation may not necessarily be appropriate for the entire rural sector, Foster (2011) suggested that developing a value-added manufacturing sector that is highly productive in the rural area could be a promising way to improve the employment prospects of the rural sector. In a rural economy with no value-added manufacturing sector, increases in agricultural productivity, where agricultural products are exported, may only lead to minor improvements in overall welfare and could entail adverse effects for some people. This is
because, while improved agricultural productivity can increase the prospects and income of people in agriculture, without proportionate increases in the productivity of the nonagricultural sector, it will result in drawing people from the nonagricultural sector. This will then bid up wages in the nonagricultural sector and cause prices to rise.

Foster showed in a theoretical model that having productivity improvements in a value-added manufacturing sector in the rural area where agriculture provides inputs into the production process (e.g., canned and processed food) can lead to large welfare gains. This result is based on a reasonable assumption that goods are exported and the cost of transporting raw agricultural products is significantly more than the cost of transporting processed goods. In this case, the productivity of value-added production will increase the demand for inputs of agricultural goods and bid up the price of agricultural goods. As a result, workers will be drawn back into the agricultural sector, and the overall gains in wages and profits in both sectors will increase.

Foster provided empirical support using ARIS–REDS14 panel surveys of rural India to show that having a value-added manufacturing sector is potentially important for rural economies. He controlled for village fixed effects; fraction of workers employed in each of three occupational categories (traded manufacturing, nontraded services, and value-added in agriculture); the share of income from agriculture, self-employed nonfarm, and salaried work; yields in agriculture; population; and the distance to the nearest town (which changes over time as villages become towns). Using the log income of the corresponding quantile as the left-hand side variable, he found that doubling the population’s share of value added workers resulted in 8.0% additional income, at the 10th percentile and 8.8% at the 90th percentile of the income distribution. The share of agricultural income was shown to have a negative relationship with overall income, indicating the general importance of nonfarm activity as a source of rural earnings growth.

Thus, there is evident support that technological innovation can have positive benefits. In particular, having technological innovation in a value-added manufacturing sector can result in considerable benefits for all workers in the rural economy and thus may be key to promoting the employment opportunities and raising the quality of employment.

**Financial services.** Financial services, and particularly credit markets, can have a profound effect on agricultural productivity and nonagricultural self-employment by providing working and startup capital. The growing literature on microcredit has shown that access to structured credit can result in higher productivity in small family businesses, and better living standards especially in rural areas.

A growing body of evidence suggests that increased access to banks has significant effects on the nature of employment and improves economic activity. Feler (2010) used bank privatization in Brazil to examine the consequences of reducing subsidies to rural banks. Feler found that, in the areas that lost subsidized banks and did not have alternative sources of credit, economic activity decreased and the number of skilled workers declined. Burgess and Pande (2005) examined the effects of India’s social banking experiment, which mandated banks to open branches in underserved areas of India. Their findings suggested significant decreases in rural poverty and increases in nonagricultural output from access to bank services.

However, problems of imperfect information plague financial markets, and providing the appropriate financial services may be very costly especially in rural areas. In their detailed study of scale economies in rural agriculture, Foster and Rosenzweig (2010) found that low levels of access to credit seemed to adversely affect the use of agricultural inputs such as fertilizer and, ultimately, the profitability of smaller scale farmers. Townsend (2011) argued that, while financial deregulation has had substantial positive effects on economic growth in Thailand by providing a better match between entrepreneurial skill and access to capital, subsidized credit in some cases led to an inefficient overdispersion of economic activity.

Moreover, it is not clear whether the public sector can sufficiently overcome the difficulties to make public financial services a cost-effective mechanism to increase the quality of rural employment. Kaboski and Townsend (2010), for example, found evidence of increased business economic activity associated with Thailand’s Million Baht Fund, but that the social costs of the program exceeded the social benefits.

Clearly, ineffective monitoring and inappropriate financial products for certain groups can have adverse effects toward raising the quality of employment. However, there are potentially huge gains from increasing access to financial services in rural areas and it can provide a means for certain business-minded rural workers to increase their profits and improve their circumstances.

**Infrastructure.** Infrastructure plays an important role in determining rural productivity growth and employment. Important infrastructure in rural areas includes irrigation, electricity, roads, transport, and grain storage, among other things.

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14 ARIS-REDS Additional Rural Income Survey and Rural Economic Development Survey.
In particular, infrastructure that improves transport facilitates access to markets outside of the local area. This can lead to increased demands for agricultural and nonagricultural products and to diversification of the nonfarm sector in rural areas. As Felkner and Townsend (forthcoming) found, road infrastructure drove substantial growth in rural areas of Thailand. They found that increased infrastructure, because it provides access to key markets, was also associated with a larger share of enterprises and higher growth of enterprises in rural villages. Donaldson (2010) also found evidence that the introduction of railroads in India led to greater economic activity by exploiting gains from trade between different regions.

Electrification can also have positive effects, by expanding the hours during which it is possible to work and accomplish different tasks while enabling microenterprises to diversify. Rud (2011) suggested that firms faced with poor and unreliable electricity supplies must invest in a relatively costly replacement technology. Taking advantage of South Africa’s post-apartheid electrification roll-out in KwaZulu-Natal province (which generated exogenous variation in access to electricity across households and time), Dinkelman (2010) examined the effect of electrification on rural employment. She found that electrification led to an increased supply of labor by women and men in their 30s and 40s who were residing in poor and middle-income communities. Dinkelman also found the increased supply of women’s time used in small-scale family enterprises resulted in a decrease in women’s wages. This emphasizes the need to accompany increased work hours and output with increases in demand for outputs. Thus, rural electrification in itself may not lead to overall improvements in wages, but, particularly when complemented with transport infrastructure, may lead to overall improvements and employment conditions of the rural poor.

**Human Capital**

Few factors are as important in raising labor productivity as human capital investments. While the average years of schooling in many Asian countries have increased substantially during the last few decades, this has not necessarily led to the workers having the skills and training that help them obtain higher quality employment. Moreover, a low level of human capital may be a constraint to investment and expansion in sectors that require skilled workers. As markets in countries at different stages of development typically demand different skills sets, educational investments and policy should likely vary with these needs. In particular, low-income countries with a high proportion of informal workers may need to consider developing a focused and narrow set of skills through vocational education and training programs. However, middle-income countries that are trying to move up the value chain may require more general tertiary education that allows for the development of innovative ideas.

As Foster (2011) noted, the informal labor market in agriculture that exists in many low-income countries may reflect the shifting nature of agricultural labor demand, but it may also indicate a lack of specialization in particular land or tasks. By contrast, most self-employed workers and most factory workers outside of the nonfarm sector may have specific skills that cannot easily be replaced by someone working in another sector. Thus, the rents associated with these skills should appear in terms of labor market earnings. Because specific skills are associated with nonfarm employment, a wage premium is observed for many forms of nonfarm employment (Lanjouw and Murgai 2008), which suggests focusing on training and educational programs that can allow nonfarm workers in rural areas to develop a specific set of skills.

Entrepreneurship training is also a potentially useful tool for raising the income of microentrepreneurs. Karlan and Valdivia (2006) used a randomized treatment that added business training to an existing microcredit program in Peru to study the impacts of entrepreneurial training. They found that the training increased repayment and business revenues for the clients. They also found that people showing the most benefit from the training were those who had expressed the least interest in the program. This provided evidence that important management skills can be taught.

While the pendulum has swung from an emphasis on technical and vocational education and training (TVET) programs in the 1980s and early 1990s to an emphasis on general education programs since the mid-1990s, there is limited research to firmly resolve the debate on which type of education is more beneficial. Because students who enroll in TVET may have, overall, different backgrounds and educational competencies from those who elect general education, it has usually been impossible to assess which track of education may be better, all else equal. Horowitz and Schenzler (1999), correcting for selection bias, found that general education exceeded returns to TVET in Suriname. Conversely, Malamud and Pop-Eleches (2008) using an education reform that shifted a large proportion of students from vocational training to general education while keeping the average years of schooling unchanged, found that in Romania there were no differences in returns between graduates of vocational versus those of general schools. However, the difference in findings may reflect the quality of the general education versus the technical vocational education institutions.
In general, expanding and strengthening vocational education opportunities can serve an important purpose, especially in a rapidly growing, liberalized economy. Vocational education can also be a powerful tool for improving job prospects and job quality among the poor. For example, in Viet Nam, which still has a large agricultural sector, people with vocational education were shown to have greater success in finding employment and higher wages than those with general education up to the secondary level, but had slightly lower employment and earnings than people who had general tertiary education (Box 8).15

Ultimately, as economies evolve and become more service oriented, promoting TVET may no longer be very useful for the majority of the population. Newhouse and

Suryadarma (2011) examined the labor market outcomes of Indonesian youths who entered the TVET track and those who entered the general education track for senior high school. They found that female TVET graduates were able to get more jobs and higher wages than those with general education, but these returns to TVET were not observed for males. They cited concerns over expanding public vocational education and the relevance of the skills taught by TVET, especially for males in an increasingly service-oriented economy.

In general, there is a strong role for building human capital to improve employment outcomes, whether through vocational or general education. Both systems and institutions may need to be strengthened. For workers in developing countries who are largely going to become self-employed, having a very specific skill to market seems warranted. However, as countries upscale and evolve, it may be preferable to focus more on general education, which may better impart the flexibility and innovation that is useful for service-oriented economies.
Active Labor Legislation

To protect the rights of workers and ensure that employers follow minimum safety and other regulations, most governments have pursued active labor legislation. The intention has been to enforce minimum quality standards in organized sectors of the economy. However, such legislation often is associated with substantial costs that can negatively impact the quantity and quality of employment that is created. Overly strict legislation can raise the costs of expanding employment, lower productivity, and impede FDI flows. For countries that are developing and have small numbers of workers employed in the modern organized sector, imposing strict minimum standards of employment quality may result in costs that hamper or stop employment growth and development of the modern sector. However, as an economy advances and a larger majority of workers are in the formal sector, the emergence of active labor legislation that can ensure minimum standards without severely impeding the business processes is important, especially for the most vulnerable workers.

Legislation and firm size. An important reason why many enterprises choose to remain small and outside the formal sector is that they can avoid the high regulatory costs that firms in the formal sector face, such as license fees, payroll and corporate income taxes, and adherence to zoning rules and labor codes (such as payment of minimum wage, severance compensation, and contributions to pension and medical insurance). Often, these costs can be substantial, providing a strong incentive for enterprises to remain small and in the informal sector (Pratap and Quintin 2006). However, remaining small limits firms from capitalizing on economies of scale and may drive low productivity and thus low investment growth in a country.

India is a good case in point. Much of the organized sector is covered by a plethora of legislation on employment protection and labor dispute resolution—India has more than 45 labor laws at the national level and an even larger number at the state level, resulting, in principle, in a broad range of protection for workers. The labor legislation includes provision for contract labor, minimum wages, social security, and unemployment. In addition, under the Industrial Disputes Act, establishments employing 100 or more workers must have government permission prior to retrenching or laying off workers, and before closing (Papola 2011).

This has constrained the expansion of output and employment in firms that produce primarily to meet fluctuating export orders. Besley and Burgess (2004) found that, in 1990, formal sector manufacturing output and employment in the state of West Bengal would have been 23%–24% higher had the state not passed pro-worker amendments during 1958–1992. Fallon and Lucas (1991, 1993) also found that formal employment for a given level of output declined by 17.5% during 1977–1982, after the introduction, in 1976, of rigid labor regulation. A host of other studies, such as Ahmed and Devarajan (2007), Ahsan and Pages (2008), Mazumdar and Sarkar (2008), and Hasan and Jandoc (2010), have also come to conclusions that legislation is constraining productivity and growth in Indian manufacturing. In addition, the Indian government had reserved entire swaths of industries to the small-scale sector (Box 9). These reservation policies further impeded the growth of output and employment in labor-intensive industries. Inevitably, this points to the fact that trying to ensure a certain level of quality employment too early in the development process can be detrimental to employment and productivity growth.

Minimum wage policy. One labor policy to single out is the minimum wage policy, which is pursued by many countries both in the developing and the developed world. In general, while minimum wage legislation protects formal sector workers by ensuring a certain level of wages, it can result in significant employment losses for the least skilled workers in the formal sector. Minimum wage policy that results in employment loss in the developed world often leads to overall loss in productivity as people become unemployed, and hurts the poorest and most vulnerable workers first and most severely (see Neumark et al. 2004, 2005; MaCurdy and McIntyre 2001).

Formal sector employment losses are also observed for developing countries. Indonesia’s experimentation with minimum wage policy (Box 10) has made it a prime country for researchers to examine the impact of the policy on labor market outcomes. Exploiting the significant changes in minimum wages, Rama (2001) found the minimum wage had a significant adverse effect on employment among small firms (although not among large firms), with minimum wage increases resulting in a 5%–15% increase in prevailing urban wages but also leading to a decline of up to 5% in urban wage employment in Indonesia. Suryahadi et al. (2003) also found that employment in the urban formal sector was adversely affected by minimum wage increases, with every 10% increase in the real

16 There are advantages for a firm to be in the formal sector, with one of the most important being access to credit. Informal enterprises have virtually no access to formal credit, as they frequently lack title to their assets and thus cannot enter into formal contracts. This ultimately impedes their growth and makes it difficult for them to capitalize on economies of scale and become more productive. Soderborn and Teal (2000) found that, in Cameroon, Ghana, Kenya, and Zimbabwe, manufacturing firms with more than 100 employees operated on average with 3–4 times more physical capital per employee than firms with fewer than six employees.
minimum wage reducing formal employment by about 1%. They argued that the adverse employment effect in the formal sector resulted in relocating the displaced workers to informal jobs with lower earnings and poorer working conditions. Moreover, Sugiyarto and Endriga (2008) found that changes in the minimum wage had an adverse impact on the employment of unskilled, but not of skilled, workers.

Still, while there are employment losses in the formal sector, as the studies just cited have shown, the overall impacts of minimum wage policy in developing countries may be less negative, as many individuals may simply end up in the informal sector. Moreover, Freeman (2009) presented evidence that raising the minimum wage can spill over to the informal sector, leading to increases in earnings in both the formal and informal sectors. For example, Lemos (2007) and Gindling and Terrell (2005) examined minimum wage laws in Latin America and found they had a positive effect on wages in both the formal and informal sectors. The SSI reservation policy, combined with trade protection for domestic industries (which India also practiced under the License Raj), resulted in market fragmentation. The small-scale enterprises could not capture economies of scale and were inefficient producers; as a result, consumers ended up paying high prices for many consumer goods. The small firms were also unable to deliver large volumes of consistent quality, which became a major constraint to the export of garments and toys.

The SSI reservation policy was based on the Gandhian concern for protecting the age-old handicraft and village-based industry in India. The intention was to promote employment opportunities outside agriculture in the rural areas. However, the policy ended up stunting the growth of promising labor-intensive industries in which India had a comparative advantage, such as textiles and toys. Indeed, India’s failure to establish a large, competitive manufacturing base in labor-intensive consumer goods may be the result of the misguided SSI reservation policy. This may also be one reason why the informal sector continues to be so large in India and completely dominates the formal sector.

While the evidence on whether labor regulation reduces the flexibility of labor markets and reduces overall employment is mixed, there is little disagreement on the importance of protecting workers’ basic rights at all income levels. Enforcement of these rights is a moral imperative, and there is evidence that provision of such basic rights can improve productivity in the workplace (ILO 2002).

**Labor Unions**

Labor unions can play an important role in ensuring workers’ rights are respected and that they receive fair pay. However, due to a large amount of informal employment and abundant labor, labor unions are rarely present in low-income countries. In countries that are middle income or higher, whose growth is based on developing labor-intensive manufacturing, the formation of labor unions is often inevitable.

Anecdotal evidence suggests that unions played an important role in guaranteeing workers’ rights in the United States in the early part of the last century. For example, the United States’ automobile industry grew rapidly in the early 20th century. This resulted in large growth in automobile employment: by 1925, over 10% of all American workers had something to do with the production, sales, service, or fueling of automobiles (Kyvig 2004). Despite the growth, automobile industry wages were low and nonsalary benefits were almost nonexistent for auto workers. Only in the late 1930s, when unionization became the norm in the industry, did workers’ wages begin to improve significantly. An implicit social contract was struck between workers and the automobile companies—the companies would get labor, loyalty, commitment, and productivity from the workers in exchange for assuring them good wages and
Box 10  The Minimum Wage in Indonesia

The Indonesian government has had a minimum wage policy since the end of the 1980s (Rama 2001, Suryahadi et al. 2003). The minimum wage has been regulated since the early 1970s, it was initially limited to certain areas and for construction workers in government projects. In the mid-1970s, the minimum wage was extended to all provinces. However, until the late 1980s, it was rarely enforced and was not effectively implemented (Rama 2001).

Major changes in the minimum wage legislation began during 1989–1990, with the introduction of legal sanctions for noncompliance and specific guidelines for minimum wage implementation, using a measure of minimum physical needs (kebutuhan fisik minimum or KFM) as a benchmark toward the end of 1990 (Manning 1997). In this period, minimum wages in all provinces were significantly below the KFM level—some provinces even had minimum wages less than 40% of the KFM. With the significant changes, in the 1990s, Indonesian minimum wages tripled in nominal terms and doubled in real terms (Rama 2001).

Since 2001, as part of a political regime favoring greater decentralization, the power to set the minimum wage has been transferred from the central government to the provinces and district governments (in consultation with regional wage commissions). Each wage commission comprises a regional manpower office, employer, labor union representatives, and some expert advisers (Manning 2003).

The transfer of power to set the level of the minimum wage to regional governments in Indonesia has had a major effect on minimum wage trends. The combination of local pressures and stronger labor unions below the central level has contributed significantly to a large increase in the minimum wage in most provinces in Indonesia, especially in comparison to the mean and median wages (Box Figure 10.1). This has led to some Indonesian experts claiming that regional governments seem willing to support a populist approach to

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**Box Figure 10.1**

Minimum Wage, Median Wage, and Mean Wage; Indonesia; 1997–2009

| Year | Minimum Wage | Median Wage | Mean Wage |
|------|--------------|-------------|-----------|
| 1997 | 40           | 50          | 60        |
| 1998 | 50           | 60          | 70        |
| 1999 | 60           | 70          | 80        |
| 2000 | 70           | 80          | 90        |

MW = minimum wage.

Source: Staff estimates calculated from BPS (various years), SAKERNAS.

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a Minimum physical needs were calculated from the food bundle that fulfilled the minimum recommended calorie intake of 2,600 per day (Suryahadi et al. 2003).
b For example, in 1990 the minimum wage in Central Java was only 31% of the KFM, and in South Sulawesi it was only 34%, while the minimum wage in Jakarta was 75% of the KFM level (Manning 1998).

c In principle, employers can request a temporary waiver from the minimum wage. However, obtaining a temporary waiver is a difficult and costly process, particularly for small and medium-sized enterprises, as they require a financial audit from a public auditor (Suryahadi et al. 2001). In practice, only about 135 waiver requests are typically granted each year in Indonesia, which has more than 20,000 manufacturing firms (Rama 2001).
d In Honduras, for example, 32% of all employees are paid below the minimum wage level, and in Costa Rica, more than 25% of full-time paid employees receive less than the minimum wage (Golding and Terrell 2005, 2007a, 2007b).

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job and retirement security (Freeman and Medoff 1984). As the United States example suggests, more than just sustained productivity growth may be needed to assure fair pay and basic worker rights; unionization may ensure that the jobs being created are well-paid, stable, and secure, assuring workers of a decent lifestyle.

Sometimes, the catalyst for respecting workers’ rights may be an accident that draws public attention to the plight of workers and goads the government into regulatory action. This was the case in 1911, when a fire in a shirtwaist factory in New York led to better workplace safety laws in factories in the United States, and in 1970, when a poisoning incident led to improved safety laws in the Republic of Korea (Box 11).

However, while labor unions can increase the quality of employment for some people who are union members, they can create conditions that diminish or exclude the quality of employment for others. They can also create adverse incentives that can lower overall productivity and cause businesses to become unprofitable (Urizar and Lee 2003). Unionization is attributed to influencing downward wage rigidities in the market that result in less wage flexibility (Dickens et al. 2007, Babecky et al. 2009). While many developing countries have collective bargaining
agreements in principle, most workers do not receive
the protection of unions in practice because of improper
enforcement or the presence of loopholes (Mazumdar
1976). Some studies have even found that union members
tend to earn less than other, similar workers (Alby et al.
2005).

Unions, however, can redistribute income toward
workers without harming economic efficiency on the
basis that negotiations (by unions) reduce some of the
transaction costs and leads to lower turnover within firms
(Freeman 2009). The extent to which unions can result in
improved employment will depend on a country’s level
of development. In lower income countries with a large
surplus of labor, unions are unlikely to be effective in
raising overall wages and working conditions, as union
coverage is typically limited to a small minority of formal
sector workers. Indeed, unions are likely to exacerbate
disparities between workers in the formal and informal
sectors. By making formal sector workers more costly
than informal sector workers, unions are also likely to
make employers reluctant to hire new workers, effectively
pushing those who are not hired into the informal sector, or
into unemployment. Thus, unions may misallocate labor,
protect unnecessary resources through rent seeking, and impair labor
market adjustments to economic shocks.

Box 10  The Minimum Wage in Indonesia (continued)

Box Figure 10.2 shows that the number and percentage of Indonesian
workers earning below the minimum wage has increased, especially
after 2003. Whether this resulted from reduced enforcement or an
actual increase in firms’ noncompliance (because of an increasing
minimum wage) is unclear. Noncompliance is highest in the
agricultural sector, but lower and roughly equal in manufacturing and
services (Box Figure 10.3). The noncompliance rate is also higher
among less-educated workers and young workers (Box Figure 10.4).
Thus, noncompliance appears to be strongly related to the extent
of informal employment in a sector or within a demographic group.

Although the minimum wage policy is applied to all paid employment
without considering the firm’s size and sector of activity, the focus
of the government’s enforcement is still limited to the large and
medium enterprises and to workers in urban areas (Rama 2001,
Suryahadi et al. 2001). Therefore, it is not surprising that many
small enterprises and workers in rural areas are still paid below the
minimum wage due to lack of enforcement and labor unions in that
group of workers. Moreover, the government has not issued effective
sanctions for employers continuing to pay their workers below the
minimum wage (SMERU 2002).
ensuring that workers’ voices are heard.

Working conditions. More importantly, the right to join a trade union rallying for better workplace conditions and safety laws. This incident eventually led to the enactment of 36 statutes regulating workplace fire safety and ventilation and set minimum standards for working women and children.

The rayon industry in the Republic of Korea had started to develop in 1959, with the establishment of the Heunghan Synthetic Fibre Company, which eventually became the Wonjin Rayon Company. In the 1980s, a massive outbreak of carbon disulfide poisoning occurred among workers at Wonjin, due to long-term exposure to the chemical during the rayon production process. A combination of unenclosed rayon spinning equipment, poor ventilation, lack of protective gear, and lack of awareness about the toxicity of carbon disulfide led to the poisoning outbreak. In response, the government created the Special Committee for Wonjin Rayon Measures to investigate the outbreak, while courts ruled for the compensation of workers suffering from carbon disulfide poisoning. This outbreak helped bring about positive changes that strengthened measures to prevent occupational health and safety problems in the workplace. It also instilled greater awareness of occupational health and safety among managers and policymakers alike. The poisoning helped spur the enactment of the Industrial Safety and Health Act of 1990, which has gone a long way toward improving overall working conditions in the Republic of Korea.

It is often said that “an ounce of prevention is worth a pound of cure.” However, lack of awareness and the drive toward economic development sometimes leads firms and governments to overlook occupational health and safety issues in order to increase productivity. In the two cases above, unfortunate incidents—a fire and an outbreak of carbon disulfide poisoning—eventually led to greater awareness of hazards, safer working conditions, and changes in policy or regulations. In addition, the two cases highlight the importance of enforcing preventive measures to ensure workers’ safety and health, both of which are crucial for workers’ morale and for increased productivity.

However, in middle- and upper-middle income countries where the supply of labor is less elastic and a larger proportion of workers are employed in the formal sector, unions can be effective in raising overall wages and working conditions. More importantly, the right to join a union and bargain collectively is an important means of ensuring that workers’ voices are heard.

Social Protection

The last two decades have brought the issue of social protection to the forefront of the policy agenda in many Asian countries, despite Asia’s rapid and sustained growth. The interest in social protection stems from several factors. One is the painful experience of some Asian economies during the financial crisis in the late 1990s. The recent global financial crises have reinforced the sense of social insecurity as Asians watch their more affluent counterparts in the West go through a period of slow job recovery. Other factors identified by Park (2010) include the imminent demographic transition in many countries in the region; the role of protection in maintaining social stability; the erosion of traditional social protection systems based on family and community ties accompanying rapid urbanization; the speed of structural change in labor markets due to globalization; and increased labor market flexibility.

In its broadest sense, social protection refers to a “set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people’s exposure to risks, and enhancing their capacity to protect themselves against hazards and the interruption/loss of income” (ADB 2008: 7). In labor markets, such programs and policies range from unemployment and disability insurance to programs to ease the adjustment process and to pensions. Social protection is considered an essential element of inclusive growth that can ensure social cohesion as well as economic and social stability (Bonilla Garcia and Gruat 2003).

However, in practice, few developing countries have broad-based social protection that universally or adequately covers all types of employment. For low-income countries with a large share of informal employment, having a well-built social protection system is simply not financially feasible. However, there is good reason for such countries to have some basic social protection for workers and to ensure efficient allocation of resources that can lead to more stable and greater economic growth. Thus, social protection systems need to be built gradually based on a country’s development stage. At low-income levels, it

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**Box 11 The Triangle Shirtwaist Factory and the Wonjin Rayon Company**

Workplace incidents can become turning points for workers, firms, and governments to increase awareness of the importance of occupational safety and health. The awareness can then lead to positive changes in policy and practice. Two cases illustrate the point.

On 25 March 1911, a fire broke out at the Triangle Shirtwaist factory in New York, killing 146 of the factory’s 500 employees, composed mostly of young immigrant women of Italian and Jewish descent. Although the factory building was considered modern in its time, it was overcrowded with workers and lacked an evacuation plan. Most of the victims died trying to escape the fire that engulfed the building, but the doors and exits were locked. After the incident, factory owners Max Blanck and Isaac Harris were indicted for manslaughter, but they were eventually acquitted. Outraged by the tragedy and the ensuing verdict, groups such as the International Ladies’ Garment Workers’ Union rallied for better workplace conditions and safety laws. This incident eventually led to the enactment of 36 statutes regulating workplace fire safety and ventilation and set minimum standards for working women and children.

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**Key Indicators for Asia and the Pacific 2011**

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17 Park (forthcoming) provides a comprehensive overview of pension systems in East and Southeast Asia, and outlines policy options for reforming them.
may be necessary to have a social protection system that can provide all people with a minimum level of health care and ensure that people have enough income for basic subsistence. As a country grows and becomes more formalized, it can build and diversify its social protection system to raise the level of protection, including such products as pensions. For example, workers at low-income levels may be unable to save for retirement; however, as incomes grow, this may change and a pension system can have substantial impacts on workers’ well-being in retirement by forcing them to save a minimum amount of their earnings.

The universal government provision of social protection benefits such as health care and pensions can bridge the disparity between workers in the formal and the informal sectors. However, in most developing Asian economies, such benefits are available only to workers employed in the formal sector. For example, in the Philippines, the national health insurance that is universally accessible to all workers is disproportionately held by workers in the formal sector (Orbeta 2011). This widens the inequality between informal and formal sector workers and increases the likelihood that vulnerable (e.g., infirm and elderly) workers in the informal sector will fall into poverty. Additionally, the provision of universal social insurance, including job security measures (e.g., unemployment insurance), allows workers to enter more economically risky job activities where they may be more productive (Boyer 2008). The United States is an obvious case in point. Group rates for health insurance coverage are typically only available to workers from their employers. This restricts job mobility and prevents workers in low-productivity jobs from moving to more productive jobs simply for fear of losing their health insurance coverage. If universal health coverage were available, workers’ mobility would increase and this would improve efficiency in the economy.

Governments cannot delay introducing social safety nets until they become high-income economies, but need to find appropriate means and methods for implementing them. Hu and Stewart (2009) contended that, in the case of the working poor, a fully funded pension arrangement may not be the best solution because the primary concern of the poor is to sustain their very basic needs. Instead, they recommended using flexible pension terms for the working poor, on the basis of seasonality and level of earnings. Special pension schemes should be carefully designed to suit workers’ profiles, especially among the working poor. Similarly, in providing informal workers with more access to health insurance, the right mix of price and coverage must be identified. Thus, the set of social protection measures that a government provides should differ depending on the wealth of its workers and the economy’s overall stage of development.

Building a sustainable and broad social protection system is neither straightforward nor easy. The PRC has built its pension system as its work force has become increasingly wealthy and more aged. Extensive pension reforms have been instituted to create a broader level of coverage for urban workers that includes several pillars that provide a minimum level of economic support, basic old age pension paid by employers based on employees’ wages, mandatory individual accounts requiring a contribution of 8% of monthly salary, enterprise annuities that are voluntary retirement plans set up by employers, and other schemes. There is also a voluntary rural pension system, but due at least partly to low incomes in the rural sector, few people are covered. By the end of 2008, only 56 million of the country’s approximately 750 million rural residents had joined voluntary pension programs and the average pension was less than CNY100 ($15) per month. Clearly, more than a voluntary contributory pension system is needed. A more active government role may be needed to increase the coverage of such social protection systems without overly burdening workers or employers (Leckie forthcoming).

Thailand provides a good example of a country that has, over time, expanded the coverage of its social security program as it became more developed. Thailand’s program was initially set up to provide benefits for illness, maternity, disability, death, and old age. In 1995, maternity benefits were extended from 60 to 90 days, pensions were extended to life, and survivor grants were added. In 1998, old age pensions and child allowances were added as well. However, until 2000, the program covered only about 15% of the workforce. Compulsory participation in the program was extended from establishments with 20 or more workers in 1991 to 10 or more in 1993, and then to 1 or more in 2002 (and finally to the agricultural, fishery, and forestry sectors in succession). Thus, own-account and other informal sector workers are covered under the program.

Thailand also became one of the very few lower middle-income countries in the world to provide universal health care coverage when it introduced the 30-Baht Health Scheme in 2001 (Hughes and Leethongdee 2008). The country had provided comprehensive health care to public servants and workers in large enterprises through several schemes, such as the Civil Servant Medical Benefit Scheme, the Social Security Scheme, and the Workmen’s Compensation Scheme, as early as the 1990s. About a fifth of the population was covered by the subsidized voluntary Health Card Scheme, which offered care to families for an
annual fee of B500. The 30 Baht Health Scheme extended coverage to the entire registered population. Because of the near-universal provision of social security and health insurance, Thailand’s informal-sector workers enjoy much greater social protection than such workers in other low- and middle-income countries.

While introducing advanced social security systems too early will invite fiscal difficulties, even low-income countries should provide some basic social safety nets. Without proper social safety nets, inefficient labor allocation will result in slower growth and may lead to social tension and instability, which will hamper long run growth. Thus low-income countries should work to ensure that all workers can have a very basic minimum level of protection. However, as countries become more developed, their social protection programs should evolve, by diversifying the set of products and raising the minimum level of protection provided.

Right-To-Work and Employment Guarantees

Article 23.1 of the Universal Declaration of Human Rights, which was adopted by the United Nations General Assembly in 1948, states that “everyone has the right to work, to free choice of employment, to just and favorable conditions of work and to protection against unemployment.” While many countries espouse the right to work in principle, they have found it more difficult to implement in practice.

Policies that can increase trade and structural transformation can promote higher quality employment and move countries toward full employment, i.e., where there is no involuntary unemployment (for example, see Felipe 2010). However, such policies cannot explicitly guarantee that everyone who wants to work for a decent wage will be able to work. India legalized the right to work, by passing the National Rural Employment Guarantee Act (NREGA) in 2005. The NREGA guarantees 100 days of employment a year to at least one member of any rural household who is willing to perform unskilled labor for the minimum wage. The employment provided is typically on rural works projects that are designed to create public infrastructure in rural areas, such as roads, irrigation and water conservation, land development, and flood control and drought proofing measures. With a budget of about $2.5 billion, the NREGA scheme is one of the largest public employment programs in the world (Sjoblom and Farrington 2008).

The NREGA scheme is too recent to have been subjected to rigorous impact evaluation. However, it was built on an earlier program in the Indian state of Maharashtra—the Employment Guarantee Act that was enacted in 1977 and brought into force in 1979. Evidence on this earlier employment guarantee scheme (EGS) showed that it did not create new employment opportunities, in large part because EGS projects often paid above the prevailing agricultural wages. In other words, it “crowded out” private employment and induced workers to shift from private agricultural employment to EGS projects.

Still, EGSs do have the potential to move people into more productive and useful activities. More importantly, they can provide a safety net for people who are largely self-employed and in informal sector work by providing them with a guaranteed minimum level of earnings.

Conclusion

Much of developing Asia continues to have a large informal sector and overall levels of productivity that are well below those of the developed world. Many Asian countries find that continuing the transition to industrialization and building the modern industrial sector while creating higher quality employment is challenging. Because Asian countries have widely varied levels of development, they need policies and approaches tailored to their particular stages and requirements in order to move toward providing higher quality employment.

Low-income countries need to increase the quality of employment by increasing trade that can attract FDI to build up their productive modern sector and create more and higher quality employment opportunities. However, as they often have a large agricultural sector, good policy will facilitate the shift to the modern sector through migration to urban areas and will allow such countries to effectively capitalize on their supply of relatively cheap labor.

The transition to the modern sector is not necessarily rapid and many people will remain in the rural areas. To ensure that the disparities between rural and urban areas do not give rise to social and political tensions, sound policies are needed for improving employment in the rural sector. This may be done, in part, by improving infrastructure in rural areas to extend the working hours and reduce the transport costs for developing strong market linkages between the rural and urban areas. Diversification into additional nonfarm activities that have greater value added and can raise incomes can be facilitated through development of access to financial services.
Fostering value-added manufacturing that effectively uses agricultural inputs in its production process is highly important to raising the overall incomes of the rural sector.

On the supply side, building human capital will remain important. However, in low-income countries that have many informal workers with relatively low levels of schooling, building specific skills through TVET may be especially important for the majority of workers.

Explicit policies to regulate the quality of employment are generally too difficult and costly to implement effectively in low-income countries. For such countries, ensuring that productivity and formalization of employment is not impeded may be the better avenue. If governments can afford to provide basic safety nets for informal workers, this can have substantial benefits. Social protection allows informal workers to release some of their consumption expenditures and invest in more productive activities.

Middle-income countries that have already built a substantial modern sector, trade and investment will continue to be important. However, the types of manufacturing and services they provide may need to evolve as the supply of cheap labor from rural areas dwindles. In particular, they will have to move up the value chain to higher value-added manufacturing and services for the quality of employment to continue to rise. This will require increased human capital accumulation that may be better provided by increased and more generalized training that provides for greater flexibility and diversification of skills as well as development of innovative thinking.

In middle-income countries, the social protection system should become more developed than in lower income countries, so that the most vulnerable workers are protected while the more entrepreneurial workers contribute to the social protection schemes. In countries with a fairly large and stable formal sector, it may be possible to implement labor legislation that can ensure minimum standards of job quality while providing enough flexibility for firms to increase their productivity and continue to upscale their activities.

In general, continuing to move toward higher quality employment will not be an easy task. Changing demographics will add to the challenge. Some countries (e.g., India and Indonesia) will continue to experience an influx of labor. These countries will need to substantially increase the quantity and quality of employment or they will miss the opportunity to capitalize on this demographic dividend. Other countries (e.g., the PRC) will experience a rise in the age dependency ratio due to an increasingly aged population, resulting in a drop in overall economic output and growth unless there is an increase in productivity. This will require increasing the quality and quantity of education and training to ensure that people who have the skills required by the market are available. It may also entail greater mechanization and capital investments that can effectively use this skilled labor. Finally, it may require an evolution in the thinking of what qualifies as higher quality employment, as the highly skilled aged population may require more flexible work hours and incentives to entice them to remain in the labor market and contribute to the economy’s productivity.

Restrictive labor legislation and uncompetitive markets can also diminish prospects for raising the quality of employment. This may require active intervention by policymakers to release the constraints on creating employment internally. For countries that are unable to sufficiently restructure their economic environment to generate better employment, international migration, possibly organized through regional cooperation, may provide a mechanism to balance disequilibria among countries lacking sufficient demand or supply for certain types of labor. International migration can thus provide workers with access to higher quality employment and increased income while the remittances they send home support an improved standard of living for their families and opportunities for them to generate additional income through businesses and by learning marketable skills.

Countries in developing Asia are clearly heterogeneous. Some countries have had difficulties developing higher quality employment, resulting in increasing informal employment or depressed growth in wages even in the organized sector. This may be partly due to minimal progress in structural transformation and to employment policies that are restrictive given the country’s stage of development. However, many countries have made substantial progress in shifting their workers into higher quality employment, with much of this occurring through policies that have facilitated structural transformation without neglecting the welfare of the rural workers. Overall, with appropriate demand- and supply-side policies and some level of social protection, countries can make substantial progress toward developing higher quality employment in Asia, which will enable it to continue its achievements in poverty reduction and stable and inclusive economic growth.
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Among the key indicators for Asia and the Pacific in 2011, several studies focused on economic growth and employment. For instance, A. Gupta (2006) examined economic growth and employment growth in China (1978–2001). Similarly, H. Hayami (2006) discussed rural-based development in East Asia under globalization.

Economic and social reforms also received attention, with D. Hughes (2004) analyzing economic growth and employment growth in China (1978–2001) through the lens of the Chinese Economic Reform process. Y. Hu and F. Stewart (2009) explored pension coverage and informal sector workers in rural India.

K. Hasan and K. Jandoc (2010) looked into the distribution of firm size in India, while J. Ha (2010) discussed Korea's middle class and its role in growth through rural-urban migration.

In addition, there was a focus on informal sector workers, with L. Ihrig and S.K. Moe (2001) analyzing the informal sector and government policy in the Philippines. A. Horowitz and C. Schenzler (1999) discussed returns to general, technical, and vocational education in developing countries.

Technical and vocational education in developing countries was also highlighted, with Y. Hu (2004) examining economic growth and employment growth in China (1978–2001) through the lens of the Chinese Economic Reform process. Y. Ilhag and S.K. Moe (2001) studied the informal sector and government policy in the Philippines.

The informal sector and government policy in the Philippines was also discussed by P. Kharas and G. Gertz (2010) in their study on the new global middle class: a cross-over from West to East. Y. Lemos (2007) explored the effects of multiple minimum wages throughout the labor market in Costa Rica.

The effects of multiple minimum wages throughout the labor market in Costa Rica were also discussed by J. Loh and J. E. Waibel (2011). The role of the minimum wage in poverty reduction was highlighted by J. Kaboski and R. Townsend (2010), while the impact of microfinance initiatives was discussed by D. Karlan and M. Valdivia (2006).

International trade and development policies were also a focus, with P. Irwan, I. Ahmed, and I. Islam (2000) examining labor market dynamics in Indonesia. The role of the minimum wage in Asia was discussed by D. Kucera and T. Xenogiani (2009). The distribution of firm size in India was also examined by R. Hasan and K. Jandoc (2010).

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