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Employment and Skills Strategies in Southeast Asia

SETTING THE SCENE

Cristina Martinez-Fernandez,
Marcus Powell

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The initiative on Employment and Skills Strategies in Southeast Asia (ESSSA) facilitates the exchange of experiences on employment and skills development. Its objectives are to guide policymakers in the design of policy approaches able to tackle complex cross-cutting labour market issues; to build the capacity of practitioners in implementing effective local employment and skills development strategies; and to assist in the development of governance mechanisms conducive to policy integration and partnership at the local level. For more information on the ESSSA initiative please visit <https://community.oecd.org/community/esssa>.

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OECD Local Economic and Employment Development (LEED) Working Paper Series

This report is part of a series of working papers from the OECD Local Economic and Employment Development (LEED) Programme. The LEED Programme identifies, analyses and disseminates innovative ideas for local development, governance and the social economy. Governments from OECD member and non-member economies look to LEED and work through it to generate innovative guidance on policies to support employment creation and economic development through locally based initiatives.

Executive Summary

The Southeast Asian region has experienced some of the highest growth rates in the world, with investments in skills playing a significant role in helping national economies to adjust to changes in working practices, advances in technology, and challenges associated with globalisation. In some countries this process has been more successfully managed and significant advances have been achieved in growth rates and employment levels, but in others it has resulted in stagnation of economic sectors, underemployment, rising unemployment levels and social exclusion for large sections of society.

The tools that are available for governments to manage change must be capable of responding to the new opportunities posed by globalisation, yet at the same time address domestic challenges associated with demographic shifts in population, increased urbanisation and the informalisation of labour markets. The present report explores these complex issues and identifies the main constraints facing employment growth in the region, and through an analysis of existing strategies identifies which have been the most successful at generating sustainable employment.

The links between urbanisation, demographic changes and investments in skills and employment needs more attention

Across the region, population growth, combined with migration from rural to urban areas and increased urbanisation, has resulted in large pools of semi and unskilled workers, many of whom are unable to integrate socially, politically or economically into mainstream society. The failure to provide this group with the appropriate skills, or support the upgrading of their existing ones, represents a loss of potential talent across a generation and could lead to political discontent. Government, development partners and donors must ensure that these capacity constraints are addressed.

Lack of decent and productive employment

Some countries in Southeast Asia are more affected from the financial crisis than others. The global economic downturn, coupled with heightened risk aversion in financial markets, has begun to hurt investment in the region. However, while economic growth is contained by the financial crisis, it is less so in Southeast Asian countries than in many other developing countries because of their high savings rates, good management of public deficits over the years and limited toxic assets on their banks' balance sheets.

The impact of the crisis has been most evident in the decline of international demand, especially for clothing, electronics and other consumer goods produced in the region. The policy lessons of the crisis are clear: countries in Southeast Asia would benefit from greater focus on domestic and regional markets, many of which have a growing middle class and a large untapped demand.

As industrialisation proceeds, enterprises tend to move higher up the value chain and also become more capital-intensive. As a result, the most successful trading countries, primarily in East Asia, are now creating jobs far more slowly-part of a process that has been called "jobless growth". Moreover, there is also a worrying trend that a significant majority of the jobs being created are low-skilled and in low-paid sectors. More analysis is needed on how to move the demand for labour up-scale in the industrial structure.

Unemployment is especially hitting youth, with rates in southeast Asian countries on average three to four times higher than adult unemployment rates (youth unemployment in developed countries is usually 1.5-2 times greater than adult unemployment). Part of the problem stems from demographic shifts in the structure of the population and the fact that many of the jobs that formerly employed young people no longer exist. This contributes to social instability and governments should investigate how active labour

market policies can integrate young people and provide them with the competencies and opportunities for decent and productive work.

Need to reform labour market institutions

Across the region insufficient attention has been given to the role of (weak) labour market institutions (LMI). This results in poor enforcement and limited social dialogue, which together constrains national efforts to promote decent work. LMIs cover a whole range of activities and services, including: employment services, career guidance, the provision of employability skills and information about employment opportunities. One of the most important constraints facing Asian labour markets is the lack of effective employment services, particularly in light of the decentralisation of policies and the handing down of power to provincial governments.

Good governance and transparent practices are a key priority for the effective implementation of policies at the decentralised level. With the increasing decentralisation of decision making processes, it is vital that local communities and other development partners play a more active role in the development and implementation of policies, enabling them to have a greater understanding of how public resources are linked to policy outcomes. Greater local flexibility is emerging as a key action for fostering innovation, entrepreneurship and local cohesion in local economic development. However, meeting local needs is still a challenging task requiring action in six domains: (1) injecting flexibility into the management of labour market policy; (2) establishing an overarching management framework which embeds local flexibility; (3) building strategic capacity; (4) building up local data and intelligence; (5) improving partnership mechanisms; and (6) improving administrative processes.

Skills mismatch is evident

There is generally a mismatch between skills acquisition and business needs in the region. Skills development of the labour force requires an enabling environment so that the provision of skills is balanced with the provision of opportunities to use these skills. Therefore, skills development should be integrated with employment promotion for both the formal and informal private sector. In particular, international co-operation in developing an enabling environment for micro and small-enterprises is of critical importance. It is essential to examine the interaction between country approaches to skills development and country approaches skills utilisation. Past country experience suggest that training alone will, in most cases, result in disappointing employment outcomes.

The development trajectory followed by the Southeast Asian Tigers provides some lessons on possible strategies for creating decent and productive employment. One of the central lessons to learn from the Tigers is the need to put in place an industrial policy that targets growth in sectors that have employment potential. Once an industrial policy is in place it is easier for governments to ensure that a match is achieved between the demand and supply of skills. Unfortunately, defining what are the priority sectors for future development of skills is still a challenging task for many of the institutions and organisations working in the region.

Until the situation changes substantially, public-sector agencies will have to be the principal source of business development services (BDS) and extension activities for domestic firms, SMEs included. However, public-sector BDS are generally not very flexible or adaptable to changing needs. They also tend to be managed and delivered largely in a bureaucratic manner, and on a supply-driven basis. Furthermore, the inherent lack of financial resources and skilled human resources means that public provision of BDS is unlikely to be adequate, relative to needs. New and innovative modalities for the delivery of BDS and extension activities to SMEs are needed. As far as possible, the main objectives should be substantive relevance and extensive outreach.

Furthermore, there is a need to raise the scale of training delivered (i.e. quantity) as well as the relevance of training to the demands of the private sector, the suitability of training for emerging categories of workers, such as women, and the certification of training where possible (i.e. quality). The decision to expand the provision of skills must take into account the capacity and potential capacity of public and private providers. In most countries across the region it would take five or more years to enable public Vocational Education and Training (VET) institutions to deliver skills that are attractive to employers. Under such circumstances it is necessary to investigate what role private providers and companies can play in expanding the supply of skills, as well as what incentives are required to encourage such provision.

Poverty reduction still challenges development in the region

The target groups for poverty reduction/fighting against exclusion are: women, unemployed youth, people with disabilities, ethnic minorities, and people living in rural communities. Skills development activities refer here to life-skills based education; capacity-building in social sectors such as health; and training of disadvantaged groups in primary sectors such as agriculture, and entrepreneurship.

Issues of integration of disadvantaged groups in the labour market through the provision of basic skills and training are a key priority for combating poverty but are insufficiently dealt with by educational institutions where resources have a greater focus on the most modern and formal sectors.

Growth of the informal economy is not slowing down

The expansion of the informal economy correlates with the process of demographic change and urbanisation. Although agricultural employment is declining, the number of own-account workers is expected to increase by over 43 million. The informal economy is likely to account for 60% of ASEAN's total employment by 2015 fuelled by the rapid growth of many national urban populations in the region and the ongoing expansion of their service sectors.

ASEAN countries (with the exception of Singapore) have dual economies and, accordingly, dual labour markets and skill requirements. The modern sector must enhance its competitiveness on global markets while the traditional, mostly rural sector, needs anti-poverty programmes focused on job creation and the development of skills that can support rural livelihoods. Educational and training institutions are mainly targeting the modern, formal sector and, as a result, the poor have little access to skill development. This dual characteristic calls for local flexibility as a principle for institutional reform.

As economies become more advanced, governments in the region should give attention to strategies that facilitate the transition of entrepreneurs and self-employed from the informal economy into the formal economy. Governments should also focus their efforts on skills development and productivity of organisations that operate in the formal sector, especially those that are involved in higher value-added production and support high skill development, so that more and better jobs can be generated and local innovation systems improved. Nevertheless, emerging evidence suggests that the distinction between the informal and formal modes of employment is becoming less distinct, especially as more and more professionals combine the two forms of employment. This is an area that needs more work and one that donor organisations and governments should investigate.

Migration and mobility represent both challenges and opportunities

Migration and mobility (both between and within countries) are driving the need for increased skills portability (transferability and recognition). There is increasing debate in both policy and academic literature about whether country specific New Qualification Frameworks (NQFs) for occupations are suitable for developing countries, the consensus of opinion at the moment suggesting that they are not. The

reasons are found in the high mobility of workers between countries, which requires a flexible approach to qualifications. NQFs in developing countries also have the challenge of lacking recognition in developed countries.

Impact of Free Trade Agreements (FTAs) remains largely unexplored

The negotiation of FTAs in the region has also led to a plethora of trade issues and recurring implementation problems for the enterprise sector, chiefly for SMEs. While trade liberalisation generates income growth and has been the major source of prosperity in the region, it also generates shocks on the labour market as jobs are created and lost. Moreover, while market access provides opportunities for new jobs, only jobs for which skills exist may be created. More analysis is needed on FTA provisions regarding labour standards and the movement of people. How FTAs actually benefit from skills and employment strategies within ASEAN remains to be fully explored.

Industrial composition is fragmented

There is an overall trend of industrial restructuring from manufacturing to service based economies.

There is a high proportion of SMEs in the region but often with a "missing middle", a hollowness in the industrial structure where there is a lower-than-average presence of medium firms. SMEs outnumber large enterprises in ASEAN member countries in both the quantity of establishments and the share of labour force they employ.

An important limitation to SMEs development is the lack of agreement on the definition of SMEs and the lack of data and information on the SME sector which are not up-to-date across the region. The shortage of data is both acute and systemic and it has persisted despite the intrinsic importance of SMEs to Southeast Asian economies and a renewed policy focus on them in recent years. Among other constraints are the difficulties to assess the state of skills in SMEs in the region and the strategies which need to be put in place to maintain and upgrade skills for competitiveness and innovation.

In a region where agricultural production is still very high, the declining importance of agriculture appears to reflect a trend towards modernisation in which countries move up the value-added chain into manufacturing and services. However, this is not necessarily a routine pattern of development. The declining importance of agriculture and the number of people employed in this sector can have serious implications for the Southeast Asian region.

Lack of entrepreneurial development linked to productive activities

Entrepreneurship development and managing skills (especially for SMEs) are needed across all industries. However, limited data is available on skills provision, increasing the challenge for policy design. Yet, there is evidence that training for workers in the informal economy on basic and generic skills (such as literacy and numeracy) as well as entrepreneurial skills (such as risk management, opportunity analysis) facilitate the transition from self-employment in the informal economy to micro-enterprise development in the formal economy.

Across the region there is little emphasis on building up local capabilities for training in entrepreneurship development. In particular, financial capabilities of SMEs constitute one of the greatest challenges for this sector to survive through the economic crisis and therefore it is a key skill to be developed in OECD and non OECD countries.

The importance of strategic policy responses cannot be under-estimated. The box below summarises key policy recommendations for skills and employment development in Southeast Asia.

Policy recommendations

Priority of skills recognition. Countries in South East Asia should ensure that all forms of skills development, as well as strategies for employment and entrepreneurial development, are linked to areas of growth or industrial development. Governments, together with social partners, must carefully define areas for industrial development at the national and local levels. Once priority areas have been identified, it will be possible to ensure that synergies occur between strategies for employment and skills development as they do between industrial development and skills development.

Strong commitment from government, at all levels, in the process of skills formation. This includes ensuring that the education system produces young people with strong intermediate level skills, especially in the areas of science, math, IT and literacy. While skill formation in the workplace is regulated by government intervention to ensure minimum standards and long-term investments in strategic areas, employers in strategic economic sectors need to commit to developing high-level science and technology skills. Workers' organisations also need to commit to high skill development and continuing life-long learning, while tertiary level education institutions need to provide appropriate academic knowledge in order to underpin practical skill formation in the workplace.

It is urgent to develop a common framework for skills and qualifications. Labour force migration and the issue of skills recognition are largely under-analysed in Southeast Asian countries despite important flows of labour and some bilateral relationships between sending and receiving countries as well as the frameworks being established through the Free Trade Agreements (FTAs).

Policy frameworks must develop an outlook towards the future and not just understand the present needs. This will involve using labour market and economic information to help identify which industrial sectors are likely to develop over the medium and longer term. Only by adopting such an approach will it be possible for government policy to become pro-active, ensuring that strategies for skills development and employment facilitate change, as opposed to reacting to skills and labour shortages.

To reduce inequalities a balance between skills for economic development, or knowledge-based development, and skills for poverty alleviation is essential. Cross-border development opportunities need to continue to be promoted and pursued by Southeast Asian countries; governments are well aware of the benefits of cross-border co-operation although there is little information of the impact this will have on skills upgrading.

National policies should be completed by sound government arrangements for the management of labour markets, injecting flexibility for programmes to be customised at the local level and by using local partnerships to stimulate policy co-ordination. An integrated approach to skills development should highlight the role of local partnerships in Southeast Asia.

Innovative examples across the region show a wealth of local labour force-oriented initiatives related to cross-border development, formation of skills networks and value-chain approaches indicating the significance of the local level in human capital development. How the local level could better provide for more and better jobs is part of intrinsic planning for the region and its actors as a whole.

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1. Introduction

The region of Southeast Asia (countries geographically south of China, east of India and north of Australia) is confronted with significant labour market challenges. The region is growing at a rapid pace. Industry is becoming more diversified, and job requirements are demanding more complex and sophisticated skills. Inflows and outflows of migrant workers are creating imbalances in the labour market and putting pressure on local economies. Human resources and skills development strategies must adjust to change and shift their focus towards contemporary problems and issues, such as the need to upgrade the skills of the low-qualified, to integrate immigrants into the labour market, and to attract and retain talent. The situation has been compounded by the recent financial crisis and the falling global demand for products and services produced in the region. Many of these issues have to be addressed locally, through joined-up strategies that recognise the inter-linkages between diverse local opportunities and challenges. Many of the challenges can only be addressed through a coherent policy framework in which national strategies are linked to decentralized decision making that address local opportunities and challenges.

It is not always easy for labour market policy and vocational training systems to respond. The governance of employment and skills is complex. In many countries the decision making process used to be top down, but with the movement towards democratic systems of governance, the power is being handed down to the state, provincial or other local government structures. This is a positive step, but creates difficulties as the decentralized structure lacks the knowledge, expertise or resources to manage labour market restructuring. Often, different streams of policy are implemented in parallel and sometimes do not communicate with each other. Local organisations are often low in resources and capacity, and ill-prepared to take on new tasks and responsibilities. At the same time national administration are unable to develop coherent policies due to lack of co-operation or influence at the local level. A more flexible, cooperative and innovative approach is vital if national administration localities, cities and regions are to reap the full benefits of globalisation and lift their living standards in a sustainable way.

The management of labour migration has gained increased prominence in recent years within the region, with added impetus being given by an agreed objective to move towards enhanced mobility of labour by 2015 in the context of the Association of Southeast Asian Nations (ASEAN). The competition for skilled workers is no longer limited to countries such as Australia, New Zealand, Canada, Singapore, the United States and European countries. Today, many other countries are joining the international market for skilled workers as both "senders" and "receivers" of migrants. Until the recent financial crisis the building boom in the Middle East was sucking in much unskilled and skilled labour from Southeast Asia. Enhanced mobility of labour within Southeast Asia will depend on a number of factors, such as agreements to support the mutual recognition of skills and qualifications. At the same time, it will be important that existing workers are able to upgrade their skills, with better opportunities for in-work training potentially benefiting all Southeast Asian communities.

Indeed, progress is currently being made. Southeast Asia proves to be a region of innovation and a powerful laboratory for new initiatives and strategies to meet these new challenges. The South-Asia model, generally called the "Developmental State Model", was devised from the experience of Singapore, Hong Kong, Chinese Taipei, and South Korea's skills development. Countries that followed this model tackled the issues of developing their human resources in a very different way from the market model. These countries have moved from low-value-added forms of production to high-valued-added forms, but have done so in a much shorter space of time than their market model counterparts. As a result their education and training systems have developed in a very different way (ILO, 1999). However, even within the Southeast Asia Tigers there is a lot of diversity with regard to how they approach economic development and skills formation. Perhaps at one extreme is Singapore where development is directed by the state and deliberate decisions are made about which sector to develop over the medium and longer terms. At the other extreme is Hong Kong where the government attempts to understand and predict which way the

global market is going and changes the output of skills accordingly. The approaches adopted by Chinese Taipei and South Korea lie somewhere between the two extremes. It is also important to realise that the Tigers used very different vehicles to for support the development of their states. In Singapore emphasis was given to workplace training, but in Hong Kong formal education was primarily used to support skill formation. The important questions that policy makers across the region must ask is to what extend are the lessons transferable to other less developed countries across the region.

Another significant process is the role of labour market information in supporting informed decisions about investments in employment and skills development. The ILO (1999) acknowledges the difficulties in identifying labour market needs, because the demands made on national training systems are diverse and dynamic, but as the rate of external change accelerates, the time taken to conceive, develop and deliver a new training programme – the gestation period – remains constant or even lengthens. In an ideal world, planners would forecast, accurately and in detail, the size and qualifications of the future workforce and would have this information available far enough in advance to prepare the necessary training programmes. An adaptable approach is needed, based on a balance between market-driven system and government intervention. What has been identified is a set of monitoring and signally instruments for labour markets analysis, forming the basis for a less ambitious and more reliable planning framework. The main components of this approach are that short-term mismatches should primarily be vacancies, tracer studies, household surveys, and employer surveys. Longer-term planning should be undertaken centrally and by sector, with predicted or planned structural changes allied to labour-market analysis.

As part of its ongoing studies the Organisation for Economic Co-operation and Development (OECD) has identified many pilot projects in the region which embrace skills upgrading and the integration of the disadvantaged into the workforce and seek innovatively to tackle issues around the flight of talent. The analysis suggests that the wealth of experience in the region could generate useful policy lessons for other economies in the region and beyond.

The OECD and its LEED Programme (responsible for local economic and employment development) is already engaged in a policy dialogue on the governance of employment and skills with Asian economies who have expressed a growing interest in decentralisation, partnership and local employment and skills strategies. A new initiative on "Employment and Skills Strategies in Southeast Asia" fosters the exchange of experience relating to employment and skills development, identifies innovative policies and practices in the region and generates guidance and recommendations. It responds to the need expressed by OECD member countries and neighbouring economies to learn more from the region's experience and to share policy lessons.

This report, as a support to this initiative, identifies and discusses employment and skills strategies in Southeast Asia. The aim of the exercise is to identify a number of characteristics and trends of employment and skills development in the region which can be explored and addressed further by the ESSSA initiative. The report is divided into five sections. Section two, following the introduction, discusses the economic and labour market context. Section three discusses key issues for employment and skills development. Section four discusses policy responses and initiatives; and section five briefly suggests key issues of employment and skills development in Southeast Asia for further discussion and analysis.

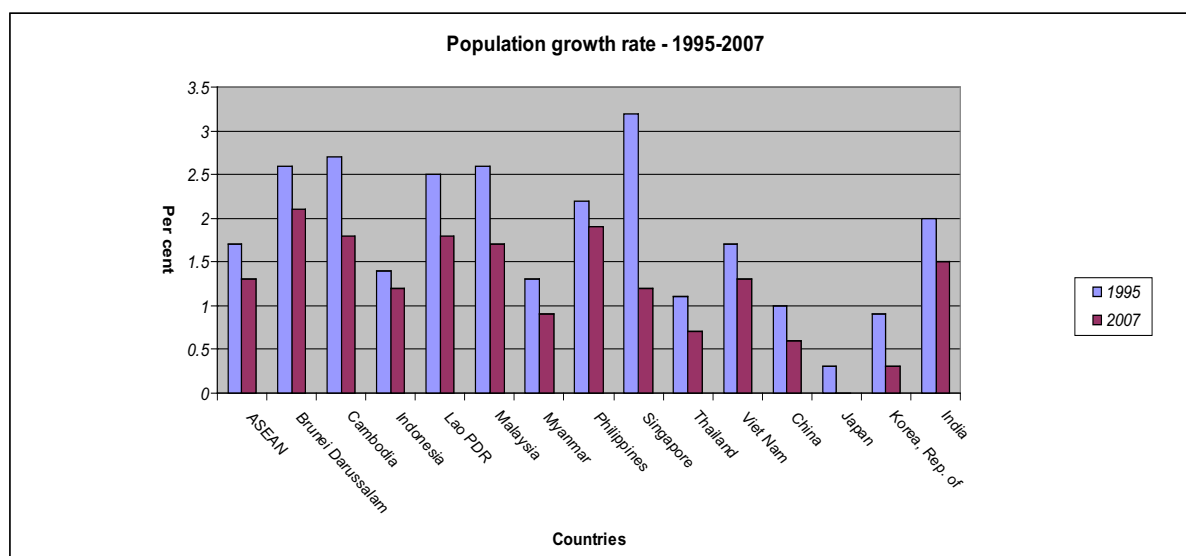
2. Social, Economy and Labour Market Context

Demographic change

The ASEAN regional population is expected to grow by 55.2 million (9.7%) to around 626 million by 2015. Most of this growth will happen in the prime-age population aged 25-54 years (33.2 million) while population 55+ will grow by 36.1% and population younger than 25 years old will shrink by approximately 0.8% (ILO, 2008). The process of urbanisation will intensify in Indonesia, the Philippines and Viet Nam accounting for 80% of the increase in the urban ASEAN population. Projected population trends expect Cambodia, the Lao People's Democratic Republic, Myanmar, Thailand, and Viet Nam to remain predominantly rural even beyond 2025 (ILO, 2007).

According to the ILO (2008) most of ASEAN's population increase will occur in urban areas. Aside from natural increases, analysts expect rural-to-urban migration to continue or even escalate. Population growth in the region is declining across all countries with some countries such as Singapore experiencing a sharp decline in population growth rate since 1995 (see Figure 1 below). Between 2007 and 2015, the region's urban population is expected to grow by 64.1 million (nearly 25%), while the rural population will shrink by 9 million (2.9%). By 2015, an estimated 52% of ASEAN's population will live in urban areas, compared with some 46% in 2007.

Figure 1. Population Growth Rate in ASEAN Countries + 3 + India 1995-2007 (percent)



Source : Compiled from ILO (2008).

* Asean + 3: China, Japan and Korea.

Demographic change and chiefly the process of urbanisation is a significant determinant of local skills and talent as workers from rural areas concentrate in the cities where, more often than not, training, re-training and up-skilling is needed for their skills to be utilized (Martinez-Fernandez, 2008). For example, Indonesia's main growth corridor along Jakarta, the South regions, and the regions bordering Kuala Lumpur and Singapore (see Figure 2) require skills of a different nature than those required in declining areas such as Aceh, North Sumatra and Bengkulu.

Figure 2. Indonesia population differences (2000-2005)



Population differences between 2000 and 2005

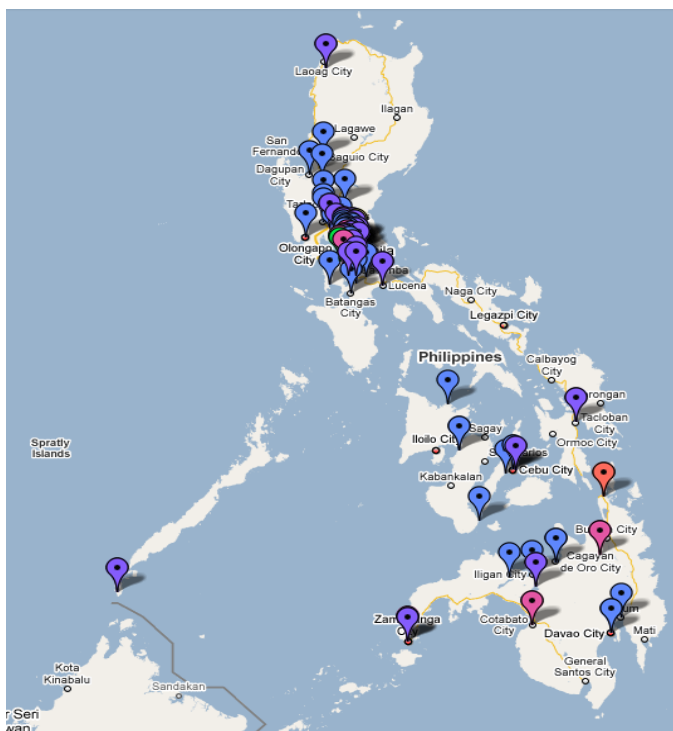


Population figures analysed from: City Populations Website (<http://www.citypopulation.de/cities.html>) [accessed 26/11/2008]

Maps developed using GoogleMaps ©2008 Google – Map data ©2008 AND, MapIT, TeleAtlas, MapData Sciences Pty Ltd, PSMA, Europa Tech.

Another highly urbanised country, the Philippines, experienced its highest growth in the Manila corridor (see Figure 3) with a concentration of skills that will differ from those provided in other areas.

Figure 3. The Philippines population differences (2000-2005)



Population differences between 2000 and 2007



Population figures analysed from: City Populations Website (<http://www.citypopulation.de/cities.html>) (6/11/2008)

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Another important component of demographic change in the region is labour migration. It is difficult to determine labour migration in Southeast Asian countries because up-to-date data is not usually collected or it is not publicised. However, according to the ISO's Labour and Social Trends in ASEAN 2008, an estimate of 1.5 million ASEAN workers leave their home countries each year to work abroad, including in other ASEAN member countries. The ten countries of ASEAN can be divided into two broad groups in terms of labour migration: those that are mainly sending countries (Cambodia, Indonesia, the Lao People's Democratic Republic, Myanmar, Philippines, and Viet Nam); and those that are mainly receiving countries (Brunei Darussalam, Malaysia, Singapore and Thailand). Available data for migration stocks in Malaysia, Thailand and Singapore in 2000-01 is presented below in Table 1. The data has important caveats: Brunei Darussalam has a current stock of around 100 000 migrant workers, while Cambodia is both a destination (of Vietnamese) and a source of temporary migrant workers (Iredale *et al.*, 2008).

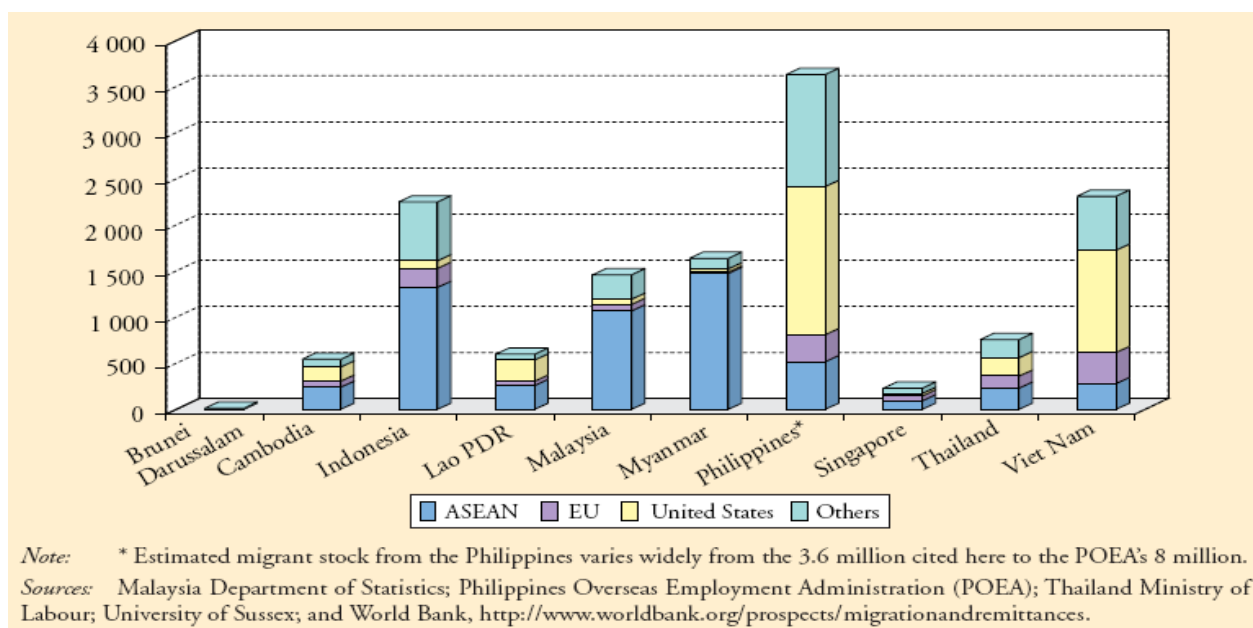
Table 1. Countries of origin and destination of main temporary migrant stocks within Southeast Asia and abroad ('000) (estimates circa 2000-2001)

Country of Origin	Destination					Outside SE Asia
	Within Southeast Asia				Total	
	Malaysia	Thailand	Singapore	Other		
Indonesia	1500	n. a.	200	50	1750	1000
Myanmar	5	500	2	5	512	100?
Philippines	300	10	150	20	480	2000-2500
Malaysia	--	5	300	10	315	200
Cambodia, Laos, Thailand, Vietnam	25	75	5	5	110	50
Other	10	5	2	20	37	300
Total	1840	595	659	110	3204	4000-5000

Source : Manning and Bhatnagar, 2004: 33.

The estimated total number of migrants originating from ASEAN is estimated at about 13.5 million in 2005. Of these 39% were in other ASEAN Member Countries, 26% worked in the United States, 9% in the European Union, and 26% in other regions, primarily the Middle East (ILO, 2007:49) (see Figure 4 below). It can be expected that the trend towards migration in the South East region will expand, especially with the creation of the Asian common market.

Figure 4. Migrants from ASEAN Member Countries by destination



As per the ILO notes:

Increasing cross-border worker movements have posed complex challenges to governments. Porous borders and large informal economies in many countries have made the management of migration problematic, especially the task of protecting the rights of migrant workers. The ASEAN Declaration on the Protection and the Promotion of Rights of Migrant Workers, signed on 13 January 2007 at the 12th ASEAN Summit, Cebu, the Philippines, signals recognition of the increasingly important role of migrant workers in regional economies and of the responsibility all Member States share in ensuring the protection of the rights of migrant workers. (ILO, 2007: 50)

According to the ILO (ILO, 2008), intra-ASEAN migration, involving both highly skilled and low-skilled workers, has helped fill much of the labour shortage in the region's receiving countries. However, irregular migrants are a serious concern due to their greater vulnerability to exploitation, abuse of rights, and limited access to channels for redress, and furthermore, for their potential to be a source of political tension between sending and receiving countries. Finding effective mechanisms to regularise irregular migrants in ASEAN, in a way that balances the interests of migrants, the sending countries, and the receiving countries, is thus of paramount importance for maximising the economic gains from labour migration.

Women dominate in labour migration flows. In 2006, 72% of workers from the Philippines were women (domestic, nurses and care-givers). In Indonesia 81% of registered labour migrants in 2004 were women:

Much anecdotal evidence suggests that migrant workers are largely absorbed into occupations such as domestic service, construction, farming, and labor-intensive manufacturing, but official statistics are scarce. The Philippines, for example, reports an occupational breakdown of migrant workers bound for all destinations. In 2006, professionals and technical workers accounted for 12% of all migrants from the Philippines and service workers made up 48%. In Thailand, based

on similar data for 2001, only 3.4% were deployed as professionals and technical workers. (ILO, 2007: 52)

Regional Economic Growth

The highest Gross Domestic Product per capita in Southeast Asian nations is found in Singapore and Brunei Darussalam with over USD 18 000 (2006). Malaysia is next with over USD 4 500 (2006), Thailand above USD 2 000 and Viet Nam, Cambodia, Lao PDR and Myanmar are below USD 1000 (see Table 2).

Table 2. Gross Domestic Product

Country	Gross domestic product per capita (constant 2000 US\$)		Gross domestic product per capita, PPP (constant 2005 international \$)	
	2006	2007p	2006	2007p
Brunei Darussalam	18,304	19,085	48,357	50,419
Cambodia	445	439	1,569	1,548
Indonesia	983	1,065	3,348	3,627
Lao PDR	439	459	1,919	2,005
Malaysia	4,535	4,794	12,149	12,841
Myanmar	..	..	..	..
The Philippines	1,154	1,195	3,055	3,162
Singapore	27,125	28,764	43,328	45,946
Thailand	2,601	2,783	7,364	7,879
Viet Nam	576	595	2,290	2,367
ASEAN	1537	1632	4370	4645

"p" denotes projection. ASEAN aggregate figures exclude Myanmar. Estimates for 2007 calculated on the basis of 2006 GDP figures together with GDP and population growth rates for 2007.

Source : International Labour Organization, 2008 sourced from World Bank, World Development Indicators, 2008.

The highest regional growth rate in 2006 is found in Cambodia with 9.6% followed by Viet Nam with a rate of 8.5%. Brunei Darussalam has the lowest growth rate, 0.4% below the ASEAN average of 6.4% (see Table 3).

Table 3. Regional Growth Rate

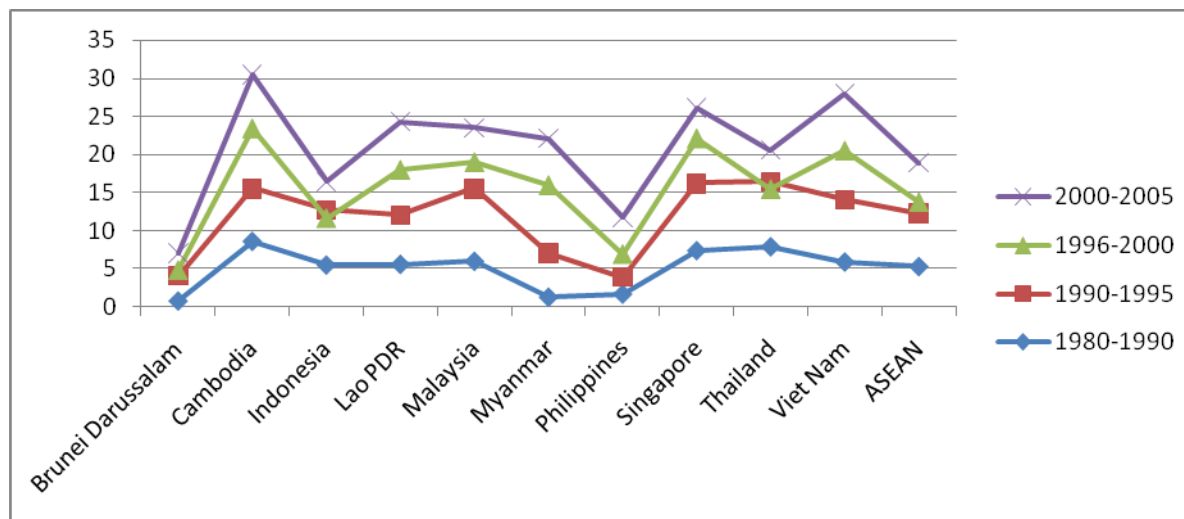
Country	Gross domestic product (annual growth rate) 2006-2008		
	%		
	2006	2007	2008p
Brunei Darussalam	5.1	0.4	-0.5
Cambodia	10.8	9.6	7.2
Indonesia	5.5	6.3	6.1
Lao PDR	8.1	7.5	7.9
Malaysia	5.9	6.3	5.0
Myanmar	12.7	5.5	4.0
The Philippines	5.5	7.3	5.8
Singapore	8.2	7.7	4.0
Thailand	5.1	4.8	5.3
Viet Nam	8.2	8.5	7.3
ASEAN	6.0	6.4	5.6

"p" denotes projection.

Source: International Labour Organization, 2008 sourced from IMF, World Economic Outlook Database, April 2008.

Economic growth data in the region from 1980 to 2005 show a general increase for all ASEAN countries, the slowdown due to the 1997-98 financial crisis and the recovery for all countries during the 2000-2005 period. Cambodia, Singapore and Viet Nam have the highest growth rates and Brunei Darussalam, Indonesia, and the Philippines are falling below the ASEAN average (see Figure 5).

Figure 5. Rate of Economic Growth (GDP at Constant Price), 1980-2005

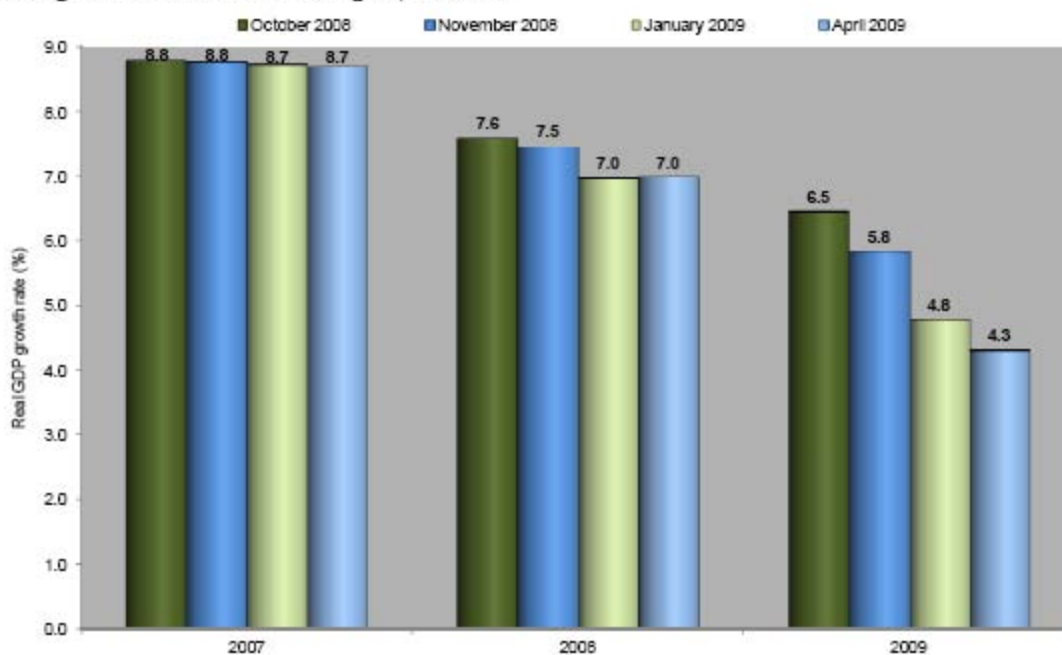


Source : computed from ASEAN Statistical Yearbook 2006.

The region of Southeast Asia as a whole is suffering the effects of the 2008 economic crisis and the predictions for growth are contained (see Figure below).

Figure 6. Economic Growth (GDP) in South Asia, 2007-2009

GDP growth estimates and projections



Source : ILO, 2009.

Inflation rates in 2006, 2007, and 2008 are high for Indonesia and Viet Nam; low for Singapore and deflationary in Brunei Darussalam (see Tables 4 and 5).

Table 4. Consumer price inflation, selected ASEAN member countries, 2006-2008 (%)

	2006	2007	Year-on-year (August 2008)
Headline consumer price inflation			
Indonesia	6.6	6.6	13.3
Malaysia	3.6	2.0	8.5
Philippines	6.2	2.8	12.5
Thailand	4.7	2.2	6.4
Viet Nam	7.5	8.3	28.3
Food consumer price inflation			
Indonesia	12.9	11.3	19.9
Malaysia	3.4	3.0	11.5
Philippines	5.5	3.3	17.2
Thailand	4.6	4.1	14.3
Viet Nam	8.7	11.2	44.2

Notes: Year-on-year inflation for August 2008, except Malaysia (year-on-year); food consumer price inflation includes food, beverage and tobacco in the Philippines and food and beverage in Thailand.

Source: International Labour Organization, 2008 sourced from National Statistical Offices in Indonesia, Malaysia, Philippines and Viet Nam; Thailand Ministry of Commerce; IMF, World Economic Outlook Database, April 2008; and World Bank: East Asia and Pacific Update: East Asia: Testing times ahead (Washington, DC, April 2008), p. 25).

Table 5. Inflation rate

Country	Inflation rate (year-on-year growth of CPI at end of period)
	percent
	2006
Brunei Darussalam	-0.7
Cambodia	2.8
Indonesia	6.6
Lao PDR	4.7
Malaysia	3.1
Myanmar	-
The Philippines	4.3
Singapore	0.8
Thailand	3.5
Viet Nam	6.6

Source: ASEAN Statistical Yearbook 2006.

Impact of the Financial Crisis

The global economic crisis is exposing households in virtually all developing countries to increased risk of poverty and hardship. Almost 40% of developing countries are highly exposed to the poverty effects of the crisis (with both declining growth rates and high poverty levels) and an additional 56% of countries are moderately exposed (they face either decelerating growth or high poverty levels), while less than 10% face little risk. Among the ASEAN countries with high exposure are the Philippines, Indonesia, Lao PDR and Viet Nam; while Malaysia is amongst the countries experiencing decelerated growth (Cord *et al.*, 2009).

The 14th ASEAN Summit provided a crucial opportunity for the heads of government to discuss collective measures to combat the financial and economic crisis. The ASEAN member states are strongly

dependent on foreign investments, export and tourism. As a result of the global crisis, Singapore already has to deal with economic recession, Malaysia and Thailand are expecting negative growth, and Indonesia is facing an economic slowdown (Atilgan and Zimpel, 2009). In the days leading up to the summit, the members of ASEAN+3 decided to raise the budget of the “Chiangmai Initiative“ from USD 80 billion to USD 120 billion to better protect each other’s currencies. In addition, the summit policy plans were formulated to strengthen SMEs and eliminate bilateral and sub-regional trade barriers (Atilgan and Zimpel, 2009).

Furthermore, the ASEAN members signed a Free Trade Agreement (FTA) with Australia and New Zealand which was termed an important contribution to overcome the global financial crisis. Similar agreements have previously been concluded with China, South Korea and Japan. Another FTA with India is pending to be concluded during the course of the year. Free Trade Talks between ASEAN and the EU have been held since 2007. An FTA between ASEAN and the EU would lead to the largest free trade area in the world, comprising a population of more than one billion people (Atilgan and Zimpel, 2009).

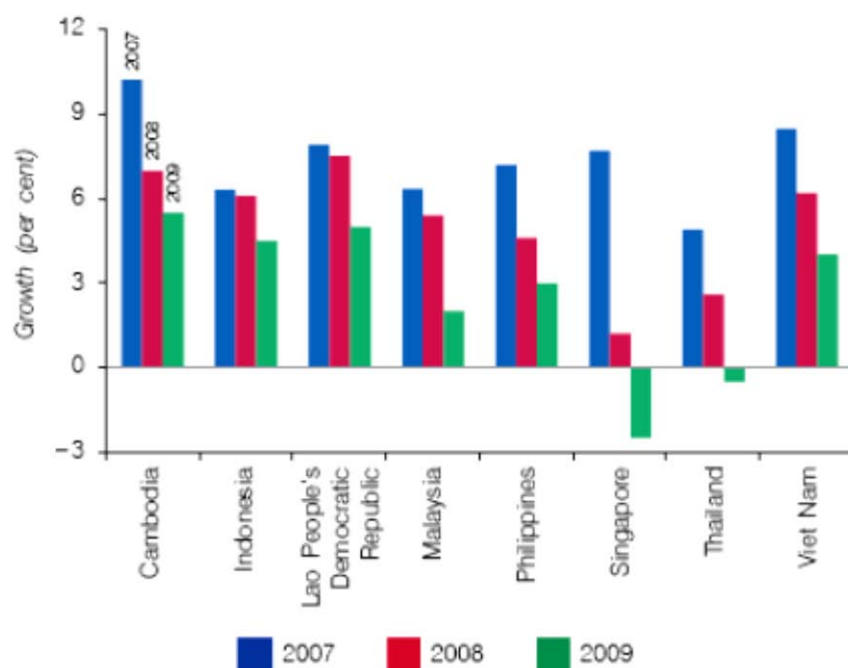
A press statement by the Heads of State/Government of the ASEAN member states, who met in March 2009, noted that “while ASEAN’s economic fundamentals remain sound as a result of significant structural reforms undertaken since the 1997/98 Asian financial crisis, the deepening global economic downturn, coupled with heightened risk aversion in financial markets, have adversely impacted trade and investment in the region. These developments pose significant downside risks to regional economic growth.” The following actions are noted as an ASEAN response to the crisis:

- Concurred on the current policy actions by ASEAN member states in response to the global financial crisis.
- Reaffirmed their determination to ensure the free flow of goods, services and investment, and facilitate movement of business persons, professionals, talent and labour, and freer flow of capital. They agreed to stand firm against protectionism and to refrain from introducing and raising new barriers.
- Commended actions by the ASEAN+3 Financial Ministers at a recent meeting on the global financial crisis.
- Acknowledged that the scope of regional co-operation must be expanded to mobilise savings for investment in productive areas.
- Recognised efforts by various ASEAN-led initiatives - including ASEAN+1, ASEAN+3 and the East Asia Summit - to promote financial sector co-operation.
- Urged that more coordinated action by both developed and developing countries be taken to restore financial stability and ensure the continued functioning of financial markets to provide support to growth.
- Called for a bold and urgent reform of the international financial system to achieve a more comprehensive, equitable and inclusive system that takes into consideration the interests and voices of the emerging and developing economies. (ASEAN Press Statement on the Global Economic and Financial Crisis, 2009).

Predictions of further impact are gloomy as noted by ESCAP (2009) Economic and Social Survey of Asia and the Pacific 2009: "Addressing Triple Threats to Development" revealed that in the first half of 2008 policy makers were preoccupied with inflation, which increased substantially as the commodity price

spike was passed on to domestic food prices. The effect of these price increases was mixed, however, as exporters of commodities such as oil and gas, rubber, palm oil, rice and metals benefited from higher export receipts. But by the last quarter of 2008, attention turned to a second and larger shock: the sudden onset of the economic crisis. As manufacturing exports from many countries in the sub-region experienced double-digit declines, economic growth slowed markedly, darkening the outlook for 2009. Overall the rate of GDP growth dropped from 6.5% in 2007 to 4.3% in 2008, but is expected to plummet further to 1.5% in 2009. There is also a marked risk that the global recession driven by the financial crisis will turn into an industrial crisis for the entire sub-region, given its integrated industrial production base and a linkage to the global supply chain, thus deepening unemployment and further hurting the poor. However, on a positive side, the improvements in banking supervision and prudent macroeconomic policies implemented after the financial crisis of 1997, have strengthened the financial sector and increased its resilience to crises (ESCAP, 2009). ESCAP predicts further GDP decline because of the dramatic fall in exports that took place at the end of 2008, the impact of the crisis is not fully reflected in 2008 rates of GDP growth. It is expected that this will be reflected in the 2009 growth rates as Figure 7 illustrates below for ASEAN member countries (ESCAP, 2009).

Figure 7. 7 GDP Growth in 2008 and predictions for 2009



Sources: ESCAP, based on national sources; ADB, *Key Indicators for Asia and the Pacific 2008*; IMF, *International Financial Statistics*; and ESCAP estimates.

Note: 2008 rates are estimates and 2009 rates are forecasts (as of 27 February 2009).

Source : ESCAP, (2009).

As inflation increased, monetary policy changed from mostly neutral to contradictory by mid 2008. But as the impact of the global financial crisis on economic growth became more evident by the fourth quarter of 2008, monetary policy started to ease. Cuts in policy rates can be expected to continue in 2009. Consistent with monetary easing and the deterioration in current account balances, Southeast Asian

currencies depreciated, especially towards the end of 2008 and into 2009. As for fiscal policy, in most countries during 2008, budget deficits were small and balances remained stable or improved slightly, thus according to ESCAP (2009) the sub-region has fiscal space for an expansionary and coordinated response to the global financial crisis.

Policy Responses to the Crisis

Indonesia

Until the present financial crisis Indonesia had growth rates of 6.3% in 2007, with forecasts predicting that it could reach as high as 8%. However, following the financial crisis prospects for growth are much less optimistic with projections ranging from 3.7 to 5%. Decline in exports reached 21% in December 2008 (ESCAP, 2009). According to the government the economic downturn is likely to result in the displacement of around 2 million workers, bringing the number of unemployed to around 11.4 million. In response to this situation, the government has introduced the following measures in an attempt to minimize the impact of the financial crisis:

- The bank of Indonesia has reduced its benchmark interest rate from 9.25% to 8.25% in order to lower the cost of borrowing funds.
- At the beginning of the new year the government announced a recovery package of USD 4.6 billion to stimulate economic activity, and provide tax relief to the sectors hardest hit by the recession.
- At the end of last year the government provided around USD 9.2 billion to finance skills infrastructure project.
- Also towards the end of last year the government increased the poverty alleviation fund to around USD 7.1 billion in order to provide a direct cash transfer programme, the provision of rice for the poor, the implementation of the school operational aid programme and other initiatives, such as the national community empowerment programme and increased small credit programmes for micro and small enterprises.
- The establishment of a new export financing agency (LPEI), which will replace the current Indonesia Export Bank (BEI). This new institution will be able to provide loans based on export transactions, providing insurance and guarantees to export firms.

The provision of active labour measures by the Ministry of Manpower and Transmigration, including a job training programme, labour networking and a housing development programme. A joint ministerial decree was issued aimed at limiting an increase in regional minimum wages. This was introduced due to the concerns that regional minimum wages would raise beyond the levels that manufacturing firms are capable of paying. A package is also being developed to support returning overseas migrant workers, including: entrepreneurship training, financial education and vocational training.

Singapore

Despite creating a record of number of jobs in 2007 and 2008 and averaging a growth rate of nearly 10% from 2004 to 2007, Singapore was the first East Asian country to fall into a recession from the current global economic crisis in July 2008. It was projected that the Singapore economy will grow by -1.0 to 2% in 2009 (Thangavelu, 2008). In October 2008, Singapore's non-oil domestic exports fell by 15% year-on-

year. The trend worsened by January 2009 when total non-oil exports declined 35% from a year earlier (ESCAP, 2009).

The "Resilience Package" announced in the 2009 Budget Statement aims to preserve jobs, help companies stay afloat during the recession and to prepare Singapore to emerge with strength when the global economy recovers (Deloitte, 2009):

- Job Credit Programme: cash transfers for employers to cover part of their wage bills and avoid mass lay-offs (SGD 4.5 billion).
- Special risk sharing initiative: government guarantees to working-capital loans (up to SGD 5 million) for individual firms to stimulate bank lending.
- Cut in corporate tax rate from 18% to 17%.
- Personal income tax rebates of 20% of taxes due (capped at SGD 2 000).
- As announced in January 2009, the government plans to draw SGD 4.9 billion from previously accumulated reserves to finance the job credit and special risk sharing initiative programmes, and will also tap reserves held by the Monetary Authority of Singapore (the central bank) and the Government of Singapore Investment Corporation (a sovereign wealth fund) (ESCAP, 2009).

The Philippines

- Philippines exports declined as much as 40% in December 2009, year-on-year, the worst performance in more than two decades, with electronics exports declining by 48% (ESCAP, 2009). The President has directed various government agencies to hasten the implementation of the PHP 330 billion stimulus package, which is designed to upgrade the Philippine's infrastructure, provide social safety nets and ensure sustainable growth in light of the global economic crisis. Before the financial crisis, however, the government had made changes to reduce tax rates and increase the net take-home pay of individuals (Deloitte, 2009). The fiscal stimulus package, announced in January 2009, includes (ESCAP, 2009):
 - Increase in expenditures (PHP 160 billion).
 - Infrastructure (PHP 100 billion).
 - Tax relief and reduction of corporate income tax rate (PHP 40 billion).
 - Waiver of penalties on loans from social security institutions (PHP 30 billion).

Thailand

Exports declined to 27% in January 2009 and GDP fell 601% in the last quarter of 2008 (ESCAP, 2009). The Thai government has issued new tax measures to stimulate the economy for individuals and business (Deloitte, 2009). The fiscal stimulus package includes (ESCAP, 2009):

- One-time distribution of THB 2 000 in cash to people who current earn monthly salaries of less than THB 15 000.
- Support for social security.

- Free education programmes.
- Job creation.
- Low-interest loans to farmers.
- The initiative extends by six months a package of economic stimulus measure implemented by the previous government, including such measures as, lower water and electricity charges, free rides on some of Bangkok's public buses and free third-class train rides nationwide.

Malaysia

Exports declined to 16% in December 2008 and the fiscal stimulus package includes (ESCAP, 2009):

- Investment funds to promote strategic industries and high-speed broadband (MYR 1.9 billion).
- Small-scale projects such as village roads and school repairs (MYR 1.6 billion).
- Affordable housing (MYR 1.5 billion).
- Education and skills training programmes (MYR 1 billion).
- Public transport and military facilities (MYR 1 billion).

Cambodia

The dramatic drop in exports is starting to impact on employment in export-oriented industries. Cambodia's garment industry sells 70% of its product to the United States, where retail sales have fallen during the second half of 2008. As a result, 10% of the country's garment factories closed operations, leaving 20 000 workers without jobs (ESCAP, 2009). A new report by the Economist Group says Cambodia is amongst the top five countries most at risk of instability from the worsening economic downturn (Fox, 2009).

Viet Nam

There are several policy responses to the crisis in Viet Nam. A fiscal stimulus package, announced in December 2008, included (ESCAP, 2009):

- Subsidised loans to farmers at an annual rate of 11.5%.
- A 4% subsidy on the interest rate enterprises pay for their loans.
- Credit for small business.

Two tax circulars issued in January 2009 provide tax relief to SMEs operating in key industries in Viet Nam. Other tax changes included (Deloitte, 2009):

- SMEs entitled to a 30% reduction of the statutory corporate income tax payable for the fourth quarter 2008 provisional corporate income liability, and the entire 2009 tax year.

- SMEs and other enterprises operating in specialised business activities can defer quarterly provisional corporate income tax payments for the 2009 tax year up to nine months from the standard deadlines.
- A February 2009 circular with retroactive effect defers the payment of personal income tax from 1st January through 31st May 2009 to encourage consumer spending.
- January 2009 guidelines reduced the VAT rate on various goods and services from 10% to 5% for the period 1st February 2009 to 21st December 2009.
- The government approved a USD 1 billion stimulus package in December 2008 to stimulate investment and consumption.

Brunei Darussalam

The Economic Planning and Development Department however predicts a slight growth in GDP for Brunei Darussalam. The Pehin said the National GDP for 2009 will be between 1.2% and 3.1%, compared to a negative growth of between -1% and -3% last year. This positive growth in 2009 will be supported by increased investments in the government sector in projects under the national development program, oil and gas projects, and the methanol plant which are expected to generate growth in the construction, finance, trade, transportation and communication sectors. However, this forecast of positive growth is over-shadowed by risks of lower growth depending on the level of oil and gas production as well as their global prices which are expected to be much lower than in 2008 due to weaker demand from oil importing countries (The Government of Brunei Darussalam, 2009).

The Second Minister of Finance also said despite the strong, stable national economy, the fall in oil prices has already had an effect, with the government expected to run a deficit during the 2009/2010 financial year, if the budget estimates come from oil revenue alone. But the government revenue from corporate taxes is predicted to increase to BND 766 million in 2009. He said that with the uncertainty in revenue from the oil and gas sector, relevant government agencies entrusted to collect government revenues must enhance their services and administration of collection. Government incomes still rely on oil and gas. Income from non oil and gas sectors and services only contribute about 19% to the whole budget estimate. Discounting oil and gas, the government will run an expenditure deficit of about BND 4 889 000 000.00 (The Government of Brunei Darussalam, 2009).

The objective of the state budget for the 2009/2010 financial year is directed towards financial strengthening to achieve a sustainable fiscal position to generate continuous economic development and growth. It is hoped the budget will not only be able to assist the private sector in current global economic challenges, but also enhance their contribution in generating more job opportunities for Brunei's citizens (The Government of Brunei Darussalam, 2009).

Employment and Vulnerable Workers

Policy responses to the financial crisis pursue the stabilisation of the fastest growing labour markets in the region. Recent trends analysed by ILO (see box below) indicate a highly dynamic labour market where employment growth coexists with the remaining challenges of informal and vulnerable jobs.

Box 1. Recent labour market trends in ASEAN

The region's strong economic performance in 2007 had a positive impact on its labour markets. Employment in ASEAN countries increased from 260.6 million in 2006 to 268.5 million in 2007, an increase of 3%, or 7.0 million additional jobs. Employment growth was particularly strong in Singapore (6.6%) and Indonesia (4.7%).

In 2007, some 72% of the region's job growth took place in industry and services. This played a role in lifting the regional productivity level by 3% because labour productivity is higher in both industry and services than in agriculture. And yet, agriculture still accounts for 44.5% of ASEAN's total employment, albeit with considerable variation across countries, ranging from less than 1% in Singapore, to over 80% in the Lao's People Democratic Republic.

About 64% of the region's employment growth in 2007 was in the form of increased wage employment, which indicates a possible expansion in formal employment opportunities. Despite this positive trend, the number of vulnerable workers, measured by own-account workers and unpaid family members – many of whom work in the informal economy – remains massive. An estimated 161 million workers, or about 60% of the ASEAN workforce in 2007, were characterised as vulnerable.

The regional average also masked significant variation by country. For example, the share of own-account workers and contributing family workers in total employment ranged from over 70% in Cambodia, the Lao People's Democratic Republic and Viet Nam to around 50% in Thailand and below 10% in Singapore.

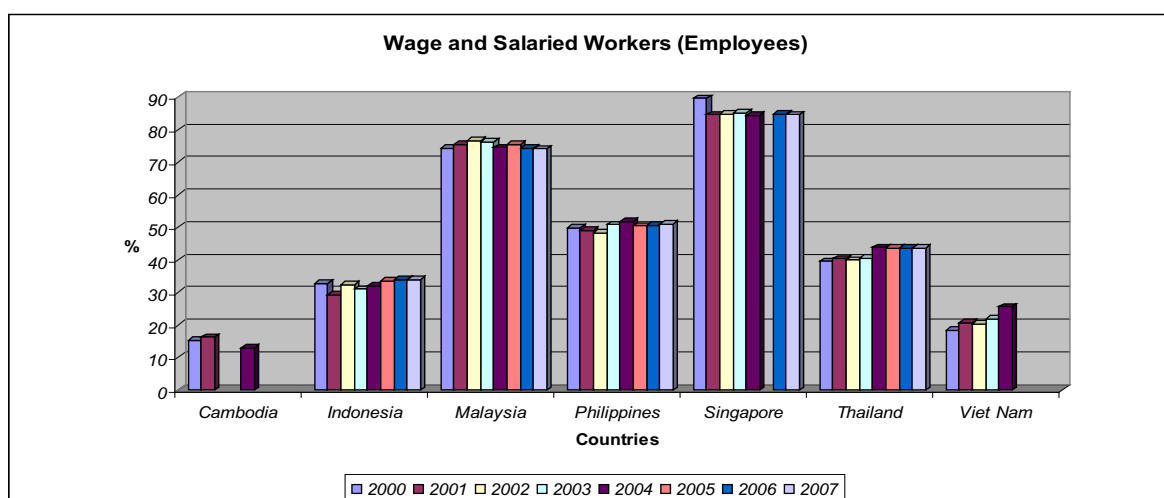
Unemployment shrank by about 555 000, or 3.2%, easing to 16.5 million in 2007. The region's unemployment rate declined from 6.1% in 2006 to 5.8% in 2007. Much of the improvement comes from positive developments in Indonesia and the Philippines – two populous countries with high unemployment rates in recent years. Unemployment in Indonesia dropped sharply from 10.3% in 2006 to 9.1% in 2007. In the Philippines it declined from 7.3% to 6.3%.

An estimated 1.5 million ASEAN workers leave their home countries each year to work abroad, including within the ASEAN region. Intra-ASEAN migration has helped address the labour shortage in the region's receiving countries, contributing to both increasing productivity and economic growth. For sending countries, remittances from their migrant workers can spur investment in economic and local development.

Source: International Labour Organisation (2008) Labour and Social Trends in ASEAN 2008: Driving Competitive and Prosperity with Decent Work, ILO: Bangkok.

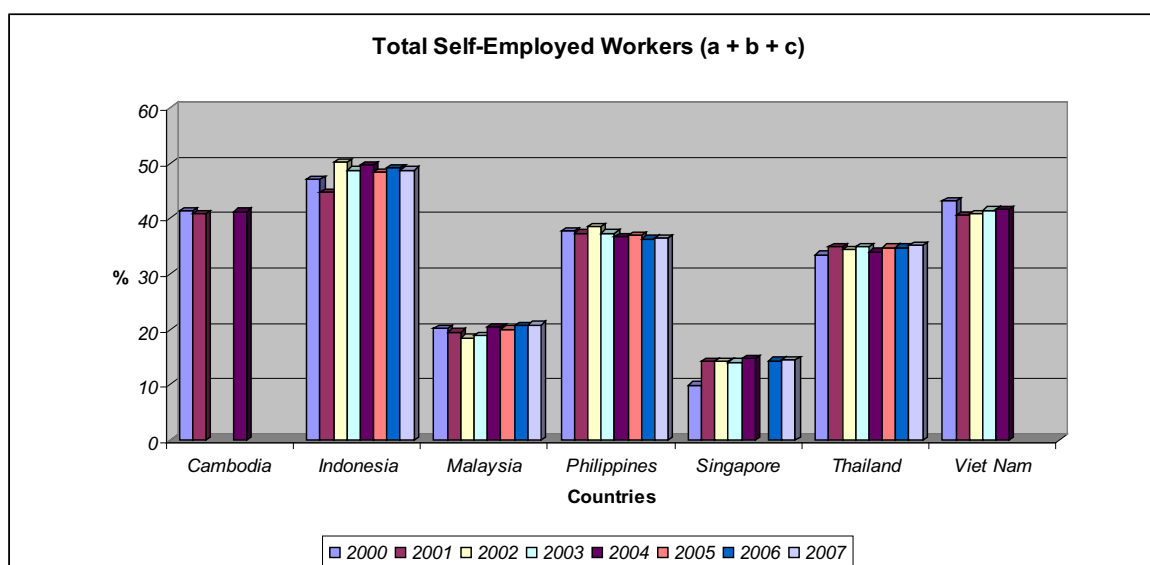
According to the ILO (2008) the number of wage earners increased by 5.2%, whereas vulnerable workers – measured by the number of own-account and unpaid family workers – many of whom work in the informal economy, grew by 1.9%. Despite the trend of increased wage earners, the number of vulnerable workers remains large, accounting for an estimate 161 million workers, or approximately 60% of the ASEAN workforce in 2007. The majority of vulnerable workers are female (65%) indicating that women tend to have more limited employment opportunities. However, the regional average masks significant variation by country as can be seen in the following figures.

The graph below (Figure 8) illustrates that Cambodia and Viet Nam have a small percentage of "wage and salaried workers"; while Cambodia seems to be in decline, Viet Nam is increasing. Singapore and Malaysia have the highest percentage of "wage and salaried workers" both of which are fluctuating slightly, followed by the Philippines (fluctuating slightly), Thailand and Indonesia (both increasing slightly).

Figure 8. Wage and salaried workers (employees)

Source : Computed from ILO (2008a), KILM 5th Edition: Table 3, Status in employment.

Turning now to "self-employed workers", Figure 9 illustrates Indonesia has the highest percentage of "self-employed workers" followed by Viet Nam, Cambodia, the Philippines (declining slightly) and Thailand. The lowest percentage of "self-employed workers" is found in the more developed economies of Singapore and Malaysia. This is an important trend that points to the importance of moving forward from self-employment and towards salaried employment, an issue which should be reflected in government policies in the less developed economies of Southeast Asia. That is to say, as economies become more advanced, governments in the region should give attention to strategies that facilitate the transition of entrepreneurs and self-employed in the informal economy into the formal economy. They should also focus their efforts on skills development and productivity of organisations that operate in the formal sector - especially those that are involved in higher value-added production - and support high skill development so that more and better jobs can be generated and local innovation systems improved.

Figure 9. Self-employed workers

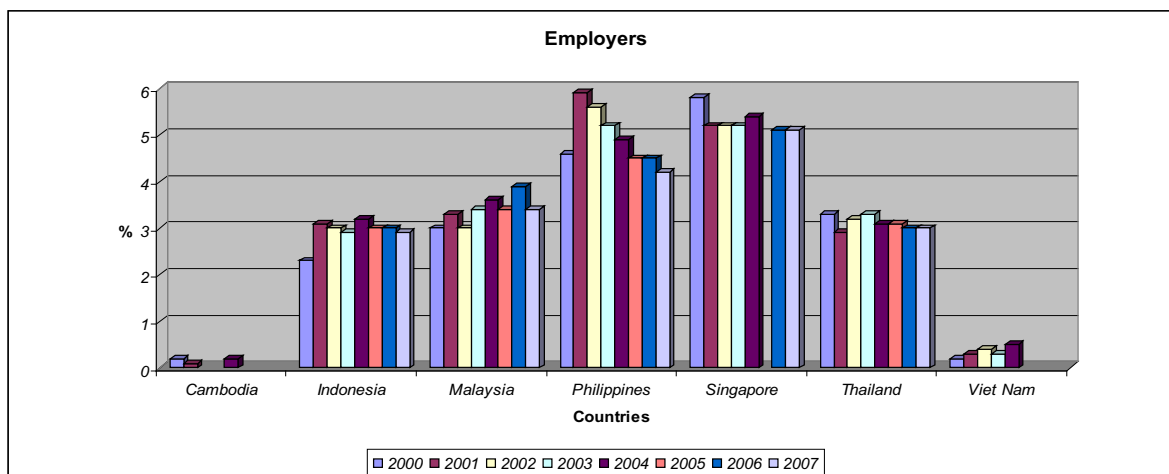
Note: 'a' employers, 'b' own-account workers, 'c' members of producer's cooperative.

Source : Computed from ILO (2008a), KILM 5th Edition: Table 3, Status in employment.

As can be seen from this figure of self-employed people across the region, strategies to support the transition of entrepreneurs in the informal sector to the formal sector should be especially useful to take advantage of the high entrepreneurial activity present in the region.

Regarding the total number of employers, Figure 10 illustrates that Singapore (declining slightly) and the Philippines (in decline) have the highest percentage of employers, followed by Malaysia (fluctuating), Thailand (declining slightly) and Indonesia (fluctuating). The lowest percentages of employers are in Cambodia and Viet Nam (increasing slightly).

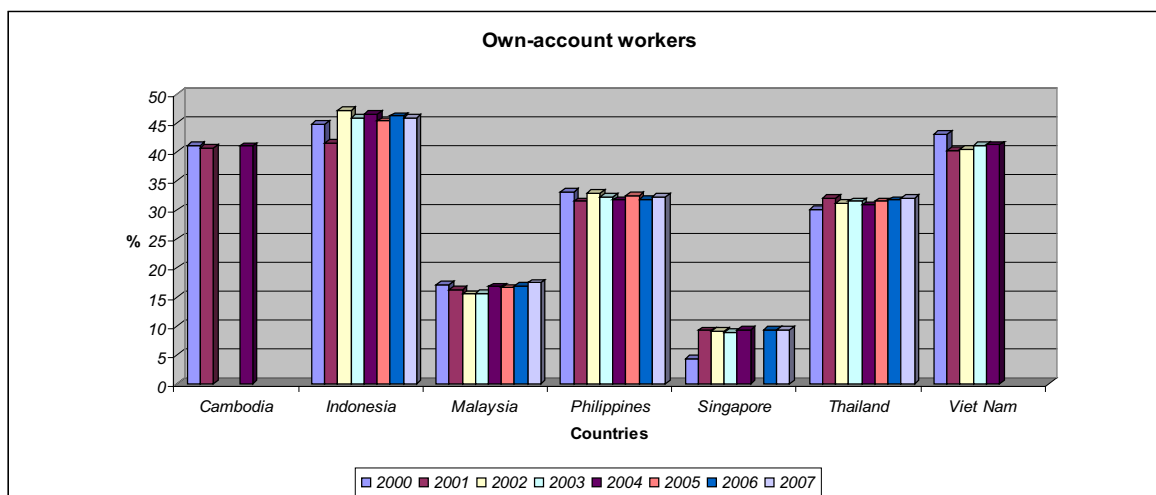
Figure 10. Employers



Source : Computed from ILO (2008a), KILM 5th Edition: Table 3, Status in employment.

Indonesia, Cambodia and Viet Nam have the highest number of own-account workers, while Malaysia and Singapore have the lowest percentage of these types of workers (see Fig 11).

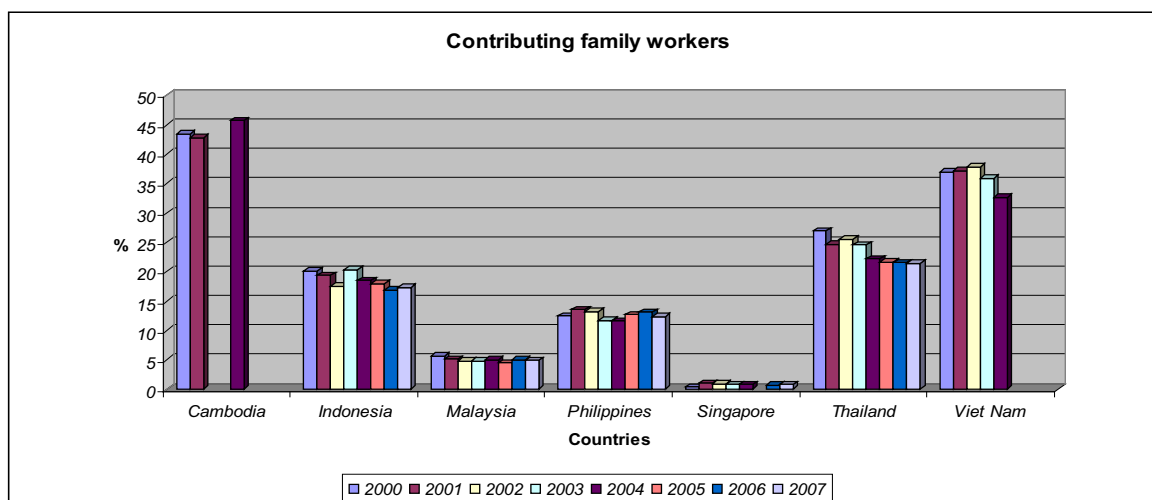
Figure 11. Own-account workers



Source : Computed from ILO (2008a), KILM 5th Edition: Table 3, Status in employment.

Figure 12 illustrates that Cambodia has the highest percent of "contributing family workers" which seems to be increasing, followed by Viet Nam (declining). Thailand and Indonesia are both declining while the Philippines is fluctuating. The countries with the lowest percent of "contributing family workers" are Singapore and Malaysia.

Figure 12. Contributing family workers



Source : Computed from ILO (2008a), KILM 5th Edition: Table 3, Status in employment.

This section discussed vulnerable workers and employment, indicating that advanced economies, such as Singapore and Malaysia, present low percentages of vulnerable workers and high percentages of employers. The contrary can be said for Indonesia, The Philippines, Cambodia, Thailand and Viet Nam. Indonesia and Viet Nam, in particular, have the highest percentage of vulnerable workers.

Regional Unemployment

Although the data collected have some caveats, unemployment rates are high for Indonesia and the Philippines (8.4 and 7.4 respectively in 2008) even if unemployment has dropped sharply from 11% in 2004-2005. Cambodia and Viet Nam present the lowest rates with 0.8 and 1.3 in 2008 respectively but data needs to be taken with caution (see Table 6).

Table 6. Unemployment - Total 1995, 2000-2007 (percent of labour force)

	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008a
Brunei Darussalam	...	...	...	...	...	...	...	...	...	3.7
Cambodia	...	2.5	1.7	...	...	0.9	...	...	...	0.8
Indonesia	7.0	8.1	8.1	9.1	9.7	9.9	11.2	10.3	9.1	8.4
Lao PDR	2.6	...	5.0	5.0	5.1	...	1.3	...	...	...
Malaysia	3.1	3.0	3.5	3.5	3.6	3.5	3.5	3.3	3.2	3.6
Myanmar	...	...	...	...	...	...	4.0	...	...	...
Philippines	8.4	10.1	9.8	10.2	10.1	11.0	7.5	7.3	6.3	7.4
Singapore	2.7	6.0	3.8	5.6	5.9	5.8	5.6	4.5	4.0	2.2
Thailand	1.1	2.4	2.6	1.8	1.5	1.5	1.4	1.2	1.2	3.2
Viet Nam	...	2.3	2.8	2.1	2.3	2.1	2.1	2.3	...	1.3
ASEAN	4.6	5.0	5.8	6.1	6.2	6.5	6.1	6.1	5.8	NA

Note: Data for Philippines (2004) represents a break in series or revised estimation methodology.

Source: International Labour Organization, 2008 sourced from ILO, Key Indicators of the Labour Market (KILM) 5th Edition, Table 8a; ILO, LABORSTA; National statistical office data; ILO Global Employment Trends Model, 2008. Source of 2008 figures: ASEAN 'Basic ASEAN Indicators: Table 2: Selected key ASEAN macroeconomic indicators. Annual: last year available: www.aseansec.org/19226.htm, accessed 16 July, 2009.

Table 7. Unemployment - Total 1995, 2000-2008 (percent of labour force)

	1995	2000	2001	2002	2003	2004	2005	2006	2007
Brunei Darussalam	...	...	...	...	...	...	...	...	...
Cambodia	...	2.5	1.7	...	...	0.9	...	...	...
Indonesia	7.0	8.1	8.1	9.1	9.7	9.9	11.2	10.3	9.1
Lao PDR	2.6	...	5.0	5.0	5.1	...	1.4	...	...
Malaysia	3.1	3.0	3.5	3.5	3.6	3.5	3.5	3.3	3.2
Myanmar	...	...	...	...	...	...	...	...	...
Philippines	8.4	10.1	9.8	10.2	10.1	11.0	7.5	7.3	6.3
Singapore	2.7	6.0	3.8	5.6	5.9	5.8	5.6	4.5	4.0
Thailand	1.1	2.4	2.6	1.8	1.5	1.5	1.4	1.2	1.2
Viet Nam	...	2.3	2.8	2.1	2.3	2.1	2.1	2.3	...
ASEAN	4.6	5.0	5.8	6.1	6.2	6.5	6.1	6.1	5.8

Note: Data for Philippines (2004) represents a break in series or revised estimation methodology.

Source : International Labour Organization, 2008 sourced from ILO, Key Indicators of the Labour Market (KILM) 5th Edition, Table 8a; ILO, LABORSTA; National statistical office data; ILO Global Employment Trends Model, 2008.

Female unemployment is higher across ASEAN countries (see Table 8). Thailand 2007 data show slightly lower unemployment for women (1.1) than for men (1.3). No data is available for Brunei and Myanmar.

Table 8. Unemployment 1995, 2000-2007, by sex (percent of labour force)

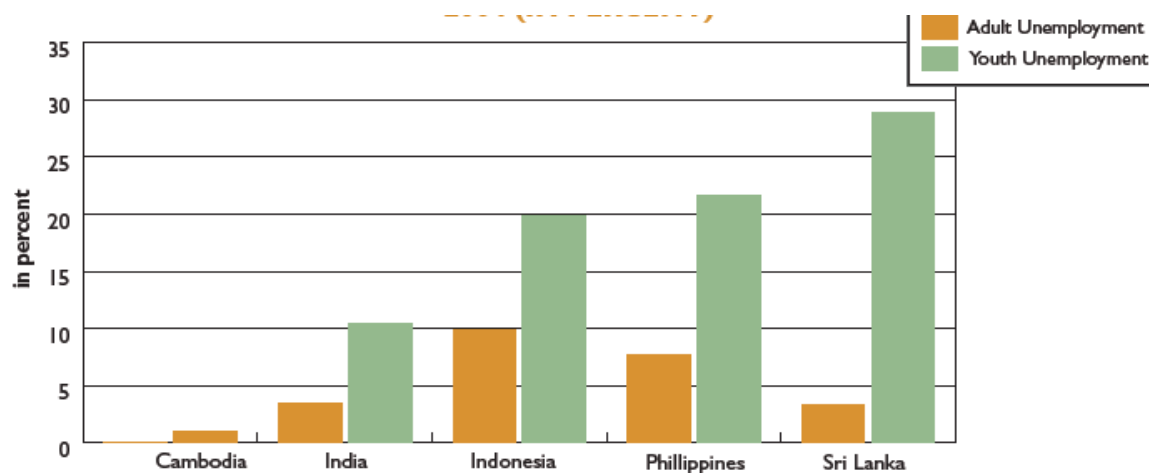
	1995	2000	2001	2002	2003	2004	2005	2006	2007
MALE									
Brunei Darussalam	...	...	...	...	...	...	...	...	...
Cambodia	...	2.2	1.4	...	...	0.9	...	...	...
Indonesia	5.4	7.2	6.6	7.5	7.9	8.1	9.3	8.5	8.1
Lao PDR	2.6	...	4.5	4.5	4.6	...	1.3	...	...
Malaysia	2.8	3.0	3.4	3.3	3.6	3.4	3.4	3.3	3.1
Myanmar	...	...	...	...	...	...	...	...	...
Philippines	7.7	10.3	9.4	10.1	10.0	10.5	7.5	7.7	6.4
Singapore	2.7	5.6	3.7	5.6	5.7	5.6	5.0	4.1	3.7
Thailand	0.9	2.4	2.7	1.9	1.6	1.6	1.5	1.3	1.3
Viet Nam	...	2.4	2.3	1.9	1.9	1.9	2.0	2.3	...
ASEAN	4.2	5.1	5.7	5.8	5.7	6.0	5.6	5.7	5.3
FEMALE									
Brunei Darussalam	...	...	...	...	...	...	...	...	...
Cambodia	...	2.8	2.0	...	...	0.9	...	...	...
Indonesia	9.8	9.6	10.6	11.8	12.7	12.9	14.7	13.4	10.8
Lao PDR	2.6	...	5.4	5.5	5.6	...	1.4	...	...
Malaysia	3.8	3.1	3.8	3.8	3.6	3.8	3.7	3.4	3.4
Myanmar	...	...	...	...	...	...	...	...	...
Philippines	9.4	9.9	10.3	10.2	10.3	11.8	7.5	6.9	6.0
Singapore	2.8	6.6	3.9	5.8	6.2	6.2	6.4	4.9	4.3
Thailand	1.4	2.3	2.5	1.6	1.4	1.4	1.2	1.1	1.1
Viet Nam	...	2.1	3.3	2.3	2.6	2.4	2.2	2.2	...
ASEAN	5.1	4.9	6.1	6.5	7.0	7.2	6.9	6.8	6.5

Note: Data for Philippines (2004) represents a break in series or revised estimation methodology.

Source : International Labour Organization, 2008 sourced from ILO, Key Indicators of the Labour Market (KILM) 5th Edition, Table 8a; ILO, LABORSTA; National Statistical Office data; ILO Global Employment Trends Model, 2008.

Youth unemployment rates in Asean developing countries are on average three to four times higher than adult unemployment rates. Youth unemployment in developed countries is usually 1.5 times greater than adult unemployment (USAID/Asia and Near East Bureau, 2007). See selected countries in Figure 13 and Table 9 below.

Figure 13. Unemployment rates, youth and adult, select Asian countries, 2004 (in percent)



Source: International Labour Organization [ILO], 2004.

Source : USAID/Asia and Near East Bureau, 2007.

Table 9. Youth unemployment - 1995, 2000, 2004-2007

	1995		2000		2004		2005		2006		2007	
	(000s)	(%)	(000s)	(%)	(000s)	(%)	(000s)	(%)	(000s)	(%)	(000s)	(%)
Brunei Darussalam	...	...	...	...	...	...	...	...	...	...	...	...
Cambodia	...	...	81	4.9	37	1.5	...	...	...	...	...	...
Indonesia	4,030	20.0	5,084	24.2	6,277	29.6	7,460	33.4	6,816	30.6	5,660	25.1
Lao PDR	30	5.0	...	...	...	...	...	...	...	...	...	...
Malaysia	180	...	186	8.3	251	11.7	246	11.7	...	10.9	...	10.9
Myanmar	...	...	...	...	...	...	...	...	...	...	...	...
Philippines	1,086	16.1	1,480	21.2	1,773	21.7	1,307	16.5	1,325	16.9	1,145	14.9
Singapore	14	5.0	15	4.8	22	8.3	16	5.2	16	8.9	16	8.9
Thailand	169	...	401	6.6	265	4.5	260	4.8	246	4.8	233	4.5
Viet Nam	...	...	409	4.8	4.28	4.6	456	4.9	...	...	...	...
ASEAN	6,147	11.0	7,511	13.2	9,935	17.1	9,604	16.5	9,870	17.2	9,336	16.0

Note: Data for Philippines (2004) and Singapore (1995, 2000, 2005) represent a break in series or revised estimation methodology.

Source : International Labour Organization, 2008 sourced from ILO, Key Indicators of the Labour Market (KILM) 5th Edition, Table 9; ILO, LABORSTA; National Statistical Office data; ILO Global Employment Trends Model, 2008.

Industrial restructuring

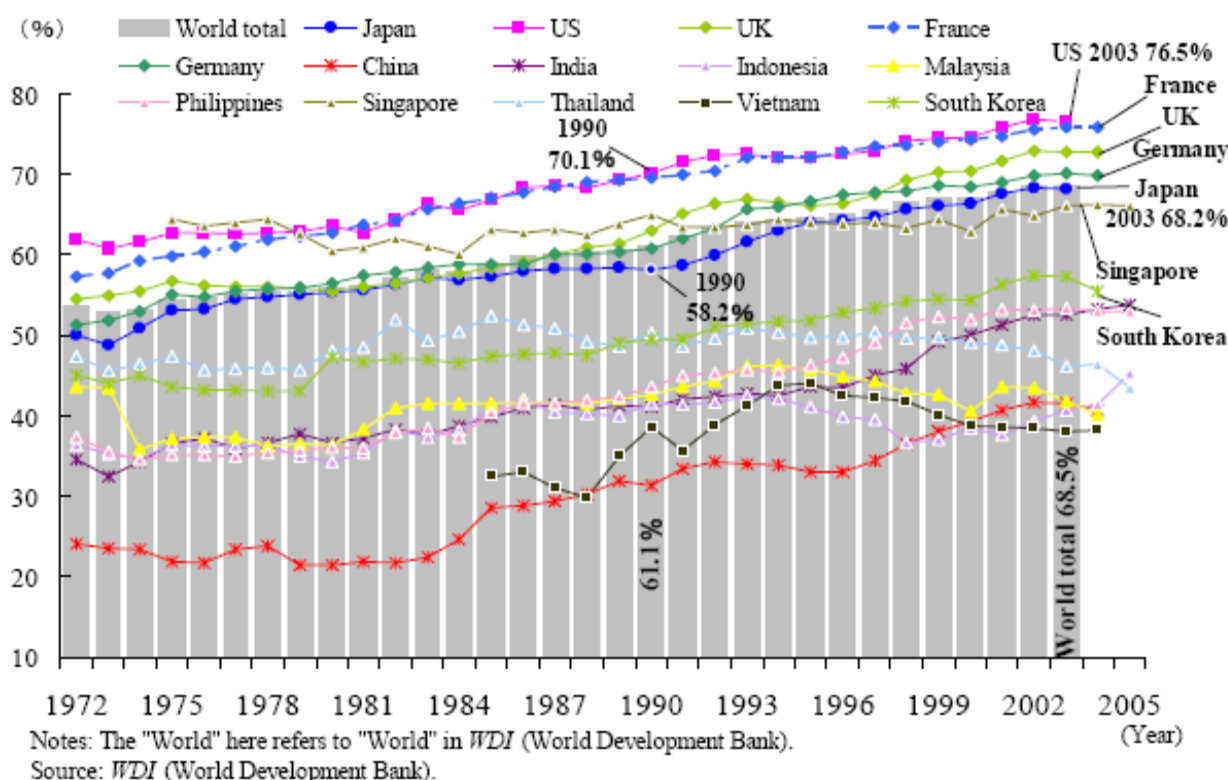
It could be argued that industrialisation and thus the transformation of ASEAN economies has been slowed down by the emergence of China. Perhaps this can be seen by comparing ASEAN countries industrial restructuring with the industrialisation of South Korea and Chinese Taipei when they were at similar levels of development and adopted similar outward-oriented policies. They benefited from a less competitive and less protectionist environment on world markets, allowing them to gain market shares.

Most Southeast Asia countries still base their economies on primary industries with the exception of Singapore where the service sector is strong. Regional disparities are evident, however. Countries where the highest numbers of people are employed in the agriculture, fishery and forestry sector are Cambodia,

Indonesia, Myanmar, the Philippines and Thailand. Wholesale and retail trade, restaurants and hotels employ the highest number of people in Brunei Darussalam and Malaysia. Public services are the most significant employers in Singapore and Malaysia. Manufacturing employs a higher number of people in Singapore (see Tables 10 and 11 on the following pages).

Most Southeast Asian economies are moving towards a more service based economy and away from their manufacturing base; the trend is happening at a lower but increasing rate when compared with OECD countries. However, the share of services is steadily growing in many neighbouring East Asian countries such as China and India, whose share have been growing dramatically since the late 1990s (METI, 2007). As Figure 14 shows countries such as the Philippines, Thailand, Indonesia, Malaysia and Viet Nam have all seen an increased trend since the 1970s.

Figure 14. Changes in service industries' nominal value added as a share of nominal GDP



Source : Ministry of Economy, Trade and Industry (METI), Japan, 2007.

The transition from agriculture and primary industries to services is at different stages in ASEAN countries (see Appendix 3 for details of employment by major industry group ASEAN countries 1995-2004). A breakdown of employed by major industry group is presented below in Table 10.

Table 10. Number of Employed by Major Industry Group (thousands)

Country	Year	Agriculture Fishery and Forestry	Manufacturing	Construction	Wholesales and Retail Trade, Restaurants and Hotels	Transportation, Storage, Communication	Finance, Insurance, Real Estate and Business Services	Public Services	Others (Mining and Quarrying, Electricity and Gas, Water, Unknown)	Total
Brunei Darussalam	1995	2	4	38	12	4	5	4	6	76
Cambodia	2004	4520	712	195	1087	195	30	727	30	7496
Indonesia	2004	40608	11070	4540	19119	5481	1125	10516	1263	93722
	2005	41814	11652	4417	18897	5553	1043	10577	996	94948
Malaysia	2004	1563	2129	965	2370	566	734	2569	94	10487
	2005	1643	2059	905	2277	541	759	2121	83	10398
Myanmar	1996	11960	1573	378	1746	470	1412	272	153	17964
Philippines	2004	11770	3021	1644	6589	2445	1001	5045	217	31733
	2005	12175	3046	1515	7084	2471	1072	5187	224	32875
Singapore	2005	-	485	184	475	260	358	485	20	2067
Thailand	2004	14914	5292	1893	7764	1081	944	3509	194	35591
	2005	15170	5437	1825	7635	1075	945	3713	203	36002

Source : ASEAN Statistical Yearbook 2006.

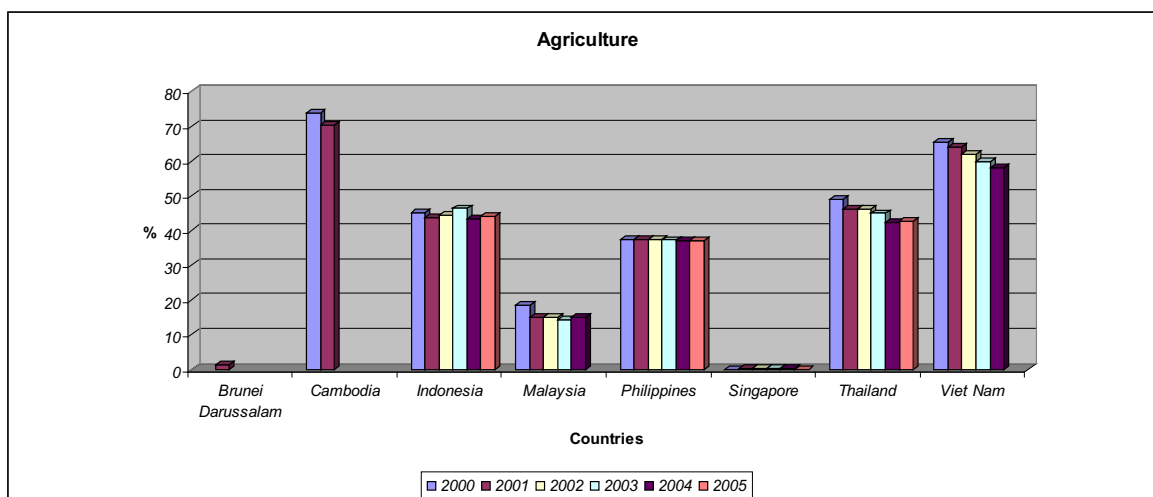
Employment in services is significantly higher in Singapore, Brunei Darussalam and Malaysia followed by the Philippines and Indonesia; these are the more industrialised countries with higher concentrations of manufacturing employment. Lao PDR, Cambodia and Viet Nam, however, have the highest percentage of employment in the agricultural sector (see figures below).

Figure 15 below illustrates that employment within the agricultural sector is the highest in Cambodia (declining slightly) and Viet Nam (in decline), followed by Thailand (in decline), Indonesia (fluctuating), the Philippines (static) and Malaysia (declining slightly). There is a lower percentage of agricultural employment in Singapore and Brunei Darussalam. On the one hand, the declining importance of agriculture appears to reflect a trend towards modernisation in which countries move up the value added chain into manufacturing and services. On the other hand, this is not necessarily the automatic pattern of development, and the declining importance of agriculture and the number of people employed in this sector can have serious implications for the Southeast Asia region and the global economy as is evident in the escalating prices of primary products and the recent food crisis.

According to UNCTAD (2008), world food prices have roughly doubled over the past three years, but between April 2007 and April 2008 alone they increased by 85%. This price rise has been broad-based, led by wheat (whose price almost doubled), then maize (up 67% since July 2007), followed by rice (which has tripled since September 2007 and soared by 160% between January and April 2008 alone). Prices for vegetable oilseeds and oils also shot up, multiplying by about 2.5 since early 2006. The fact that the current price boom includes nearly all major basic foodstuffs and feedstock is what most distinguishes it from earlier booms. And the fact that it applies to all commodities, not just food, hints at driving forces that go beyond shocks from drought and flooding. No single factor has been responsible. Rather, different factors have been of varying importance for different food items. Most experts trace the start of the crisis to the long-term trend of increased demand for food. The effects of that rising demand – largely the result of

population growth, urbanisation, and rapid economic development in East and Southeast Asia in particular – were amplified by recent droughts, slow supply response, the fall in the dollar, high energy prices, and concerns over increased demand for bio-fuels. The effects of these factors on food commodity prices were in turn exacerbated by government export restrictions and market speculation.

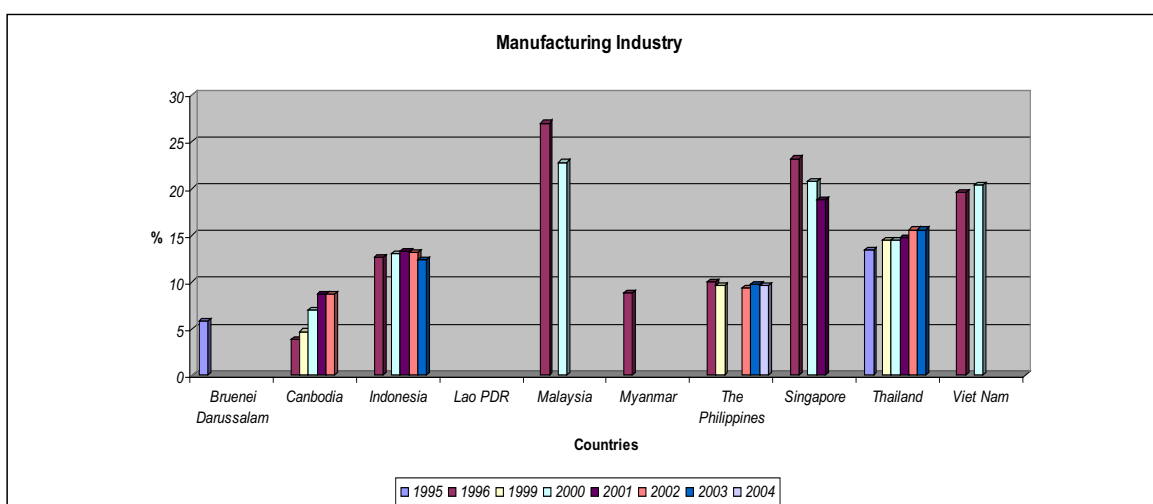
Figure 15. Agriculture employment trends



Source : Sourced and computed from ILO (2008a) KILM 5th Edition: Table 4a, Employment by sector.

As Figure 16 illustrates the main manufacturing industry activity¹ occurs in Malaysia (declining), Singapore (declining), and Viet Nam (increasing). Other significant countries include Thailand (increasing) Indonesia (declining slightly) and the Philippines (fluctuating). The countries with a lower percentage of employment in manufacturing are Myanmar, Cambodia (increasing) and Brunei Darussalam.

Figure 16. Manufacturing Industry

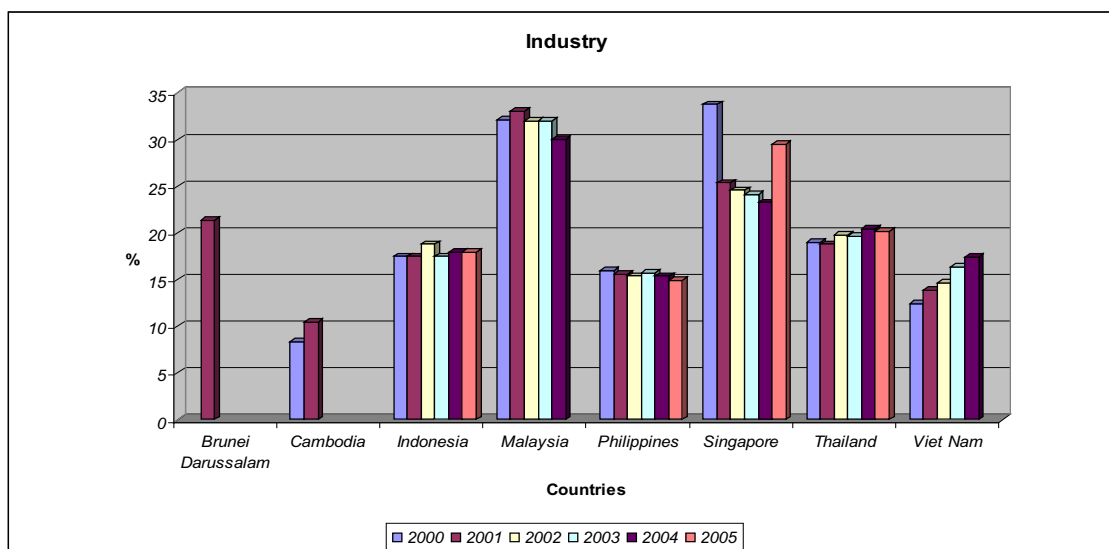


Source : Sourced and Computed from ASEAN Statistical Yearbook, 2003, 2004 and 2005.

¹ It should be noted that the share of manufacturing industry in total output is significantly affected by the long-term fall in manufacturing prices and, also, for the period covered by this study, by the increase in agricultural commodity prices. Employment shares might be a better indicator of industrialisation than output shares but they are also affected by changes in productivity.

Figure 17 illustrates countries with the highest percent of employment in the industrial sector are Malaysia (declining) and Singapore (declined and now recovery), followed by Brunei Darussalam, Thailand (increasing slightly), Indonesia (fluctuating), Viet Nam (increasing) and the Philippines (declining slightly). The country with the lowest percent employed in the industrial sector is Cambodia, which seems to be on an increasing trend according to the limited data available.

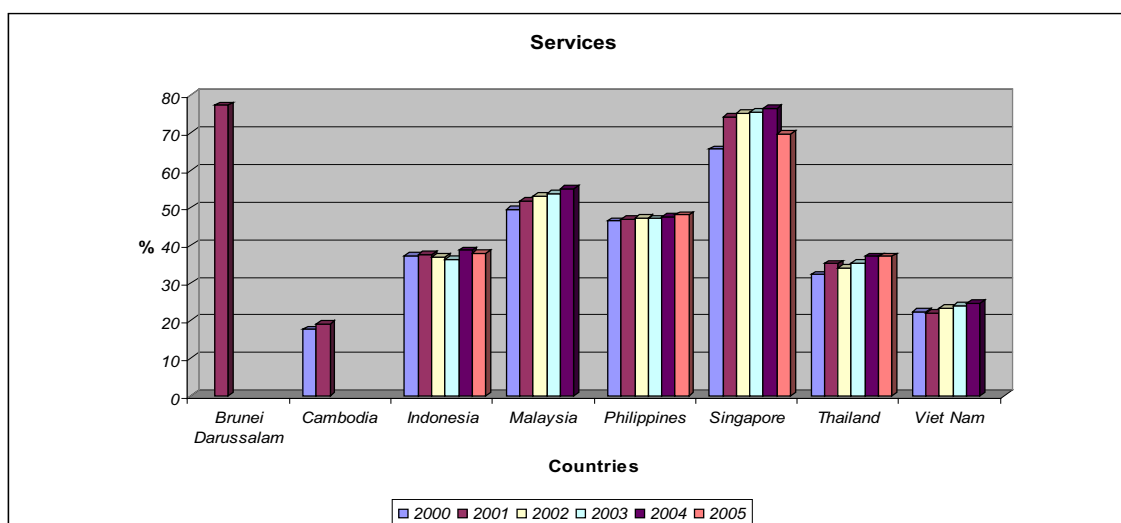
Figure 17. Industry employment trends



Source : Source and Computed from ILO (2008a), KILM 5th Edition: Table 4a, Employment by sector.

Figure 18 illustrates countries with the highest percentage employment in the service sector includes Singapore, which has been increasing but recently has declined, and Brunei Darussalam. Other countries with significant employment in the service sector include Malaysia (increasing), Philippines (increasing slightly), Indonesia (fluctuating), Thailand (increasing) and to a lesser extent Viet Nam (increasing). Cambodia has the lowest percentage of employment in the service sector, however, the percentage seems to be increasing, and data again is limited for Cambodia.

Figure 18. Service employment trends



Source : Sourced and Computed from ILO (2008a), KILM 5th Edition: Table 4a, Employment by sector.

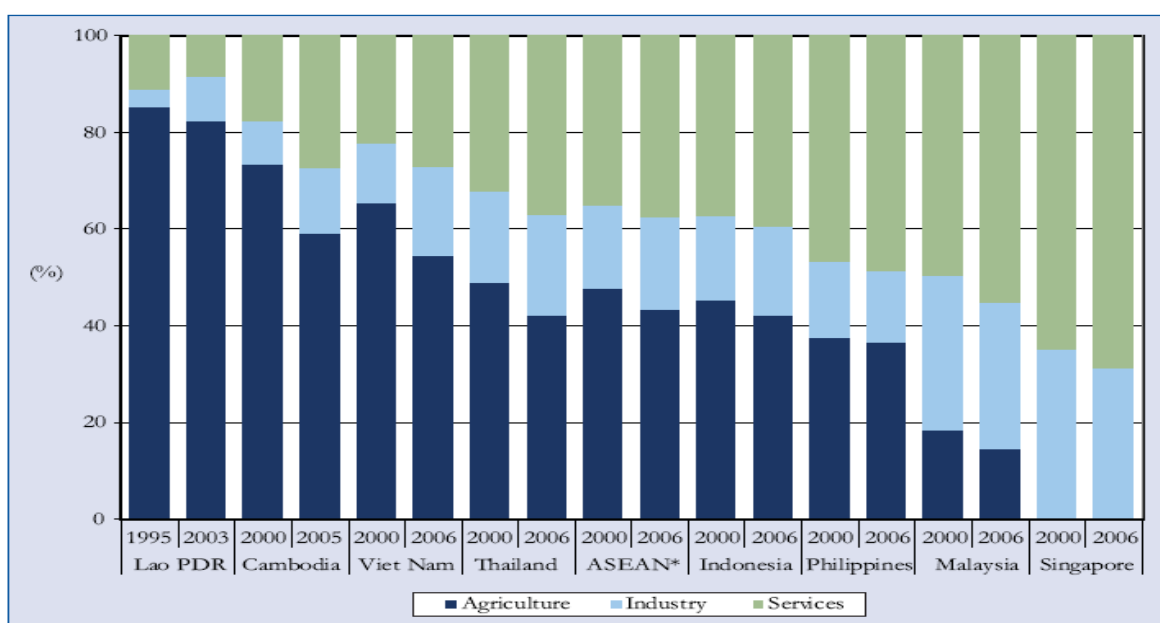
Employment figures for the major economic sector, in the most recent years are presented in Table 11 and Figure 19 (percentages).

Table 11. Employment by major economic sector, most recent year (%)

	Year	Agriculture	Industry	Services	Other
Brunei Darussalam	2001	1.4	21.4	77.2	0.0
Cambodia	2005	59.1	13.4	27.5	0.0
Indonesia	2007	41.2	18.8	40	0.0
Lao PDR	2003	82.7	9.3	8.6	0.0
Malaysia	2007	14.8	28.5	54.1	2.6
Myanmar	1998	62.7	12.2	25.1	0.0
Philippines	2007	36.1	15.1	48.8	0.0
Singapore	2007	...	22.6	76.2	1.1
Thailand	2007	41.7	20.7	37.4	0.1
Viet Nam	2006	54.7	18.3	27	0.0
ASEAN	2007	44.5	19	36.5	0.0

Source : International Labour Organization, 2008 sourced from ILO, Key Indicators of the Labour Market (KILM) 5th Edition,

Figure 19. Employment by sector, 2000-2006(%)



Notes: *ASEAN regional figures exclude Myanmar. The starting and ending years are 2000 and 2006, respectively, except for the following countries: Cambodia (2000, 2005); Lao PDR (1995, 2003).

Sources: National statistical office data; ILO, Key Indicators of the Labour Market Fifth Edition; ILO, Global Employment Trends Model 2008.

Source : ILO, 2008.

In summary, industrial restructuring from agriculture to industry and services is notable in the ASEAN region by a sectoral shift in employment with workers moving from lower to higher productivity sectors, as indicated by the ILO and ASEAN reports. Main trends include the following:

- The share of agricultural employment declined everywhere between 1995/2000 and 2003/2006, although agriculture remained the largest sector in terms of employment, except in Malaysia, the Philippines, and Singapore.
- Other than in the Lao People's Democratic Republic, the share of service sector employment increased significantly, indicating that in most ASEAN economies, this sector was the main source of employment growth.
- With industrial employment, the story becomes mixed. The share of industrial employment increased in Cambodia, the Lao People's Democratic Republic, Thailand, and Viet Nam, while it declined in other countries.
- The largest movement of workers from agriculture to industry and services occurred in Cambodia and Viet Nam, the countries with the fastest economic growth since 1995 and increased Foreign Direct Investment (FDI) per worker (ILO, 2007: 15; 2008:26)
- Following global trends in OECD countries, it is predicted that by 2015 the services sector in ASEAN will be the largest sector in terms of employment; accounting for over 41% of total employment which will increase by a projected 28 million (ILO 2008:6).

3. Key Issues for Employment and Skills Development

Skills development has been a major accompaniment to growth in Southeast Asia (Palmer, 2007). The very high growth rates of many countries, combined with the changing nature of work, and the challenges and opportunities associated with globalisation, mean that skills development requirements are ever shifting. This means an increased need for both skills upgrading and new skills that fuel industry competitiveness. As Palmer identifies, one of the challenges related to this situation remains how to forecast future skills' demand to meet the changing needs of these growing economies.

However, ASEAN countries (except Singapore) have dual economies and, accordingly, dual labour markets and skill requirements. The modern sector must enhance its competitiveness on global markets while the traditional, mostly rural sector needs anti-poverty programmes focused on job creation and the development of skills that can support rural livelihoods. Educational and training institutions are mainly targeting the modern sector and, as a result the poor have little access to skills development. This dual characteristic calls for local flexibility as a principle for institutional reform.

The following factors exemplify the key challenges ahead for the region and reflect on the social, economic and labour market context discussed in the previous section.

Lack of jobs

According to UNDP (2006) Asia-Pacific Human Development Report, most countries that embark on industrialisation typically do so with labour-intensive production in industries - like garments, textiles and footwear - that take advantage of ample supplies of low-cost labour. However, as industrialisation proceeds, they tend to move higher up the value chain and also become more capital-intensive. As a result, the most successful trading countries, primarily in East Asia, are now creating jobs far more slowly – "Jobless Growth" (UNDP, 2006). As Table 12 shows, employment elasticity in industry fell steeply – from 0.59 to 0.07.

Table 12. Growth of employment and output, and employment elasticity by sector

	1980s			1990s		
	Employment growth	Output growth	Employment elasticity	Employment growth	Output growth	Employment elasticity
East Asia and Pacific	4.2	7.4	0.56	1.2	8.2	0.15
<i>Agriculture</i>	1.8	5.1	0.35	-0.2	3.3	-0.05
<i>Industry</i>	4.7	8.0	0.59	0.8	11.0	0.07
<i>Services</i>	5.2	8.9	0.59	3.5	7.1	0.49
South Asia	1.6	5.7	0.28	1.6	5.2	0.31
<i>Agriculture</i>	1.3	3.5	0.37	0.6	2.9	0.21
<i>Industry</i>	2.3	7	0.33	2.5	4.6	0.45
<i>Services</i>	2.3	6.2	0.37	3.6	6.8	0.52

Source : Palanivel (2006) (cited from UNDP, 2006).

This phenomenon is exacerbated due to three reasons: (i) governments maintaining low interest rates – effectively giving capital preference over labour. Interest rates should reflect the real price of capital, not the rate that industrialists would prefer; (ii) similarly, states should phase out fiscal incentives to enterprises since these raise the return on capital and again encourage capital-intensive investments; and (iii) enterprises may be reluctant to take on new workers because the contract can be too rigid. This creates a persistent duality – a small and protected group of "insiders" with secure employment influenced by national regulations, and a large scale casual, and often exploited, workforce employed on piece rates. Instead, more workers should steadily be absorbed into formal employment but on contracts sufficiently flexible that they can readily be deployed to other sectors or companies as trading conditions change. Governments can assist in the process by providing some support for workers through health insurance and

social security and by active labour market policies to encourage retraining and redeployment (UNDP, 2006).

The failure of labour market institutions

According to the ILO (2007a), the quality of institutions is country specific, but across the region insufficient attention has been given to the role of labour market institutions (LMI) resulting in weak LMIs, poor enforcement, and limited social dialogue, which collectively constrain national efforts to promote decent work. LMIs cover a whole range of activities and services, including: employment services, career guidance, the provision of employability skills and information about employment opportunities. One of the most important constraints facing Asian labour markets is the lack of effective employment services, particularly in the light of decentralisation of policies and the handing down of power to provincial level governments. Due to the lack of capacity within the public sector, many employment services are now being performed by the private sector. According to the ILO (2008), robust labour market institutions underpinned by effective tripartite dialogue between workers, employers and governments is essential for ensuring that productivity gains are distributed in an equitable and sustainable manner, thus maximising their social benefit.

Free Trade Agreements (FTAs)

After the 1997-98 Asian financial crisis and with the expansion of the Chinese economy, it became clear for Southeast Asian countries that they needed more inputs than could be produced at the country level. Free Trade Agreements provide a strategic focus for sorting out this problem with neighbouring countries within ASEAN + 10 (ASEAN + Japan, Korea, China, Australia, New Zealand and India). Some countries have a competitive advantage for trade policy as particular skills are in demand by other countries. For example, Philippine nurses are in demand in Japan, as well as Thai spa specialists. As the ASEAN market integrates, business is consolidating in the region, with companies expanding to different countries and demanding particular skills from the local labour force². The negotiation of FTAs in the region has also led to a plethora of trade issues and recurring implementation problems for the enterprise sector, chiefly Small and Medium Enterprises (SMEs) (see Box 2).

Box 2. FTAs Implementation issues and difficulties

1. *The persistence in the trade regimes among developed countries of significant tariff peaks and tariff escalation.*
2. *The planned liberalisation in textiles and clothing has not led to a significant removal of quota barriers.*
3. *Both developed and, to a lesser extent, developing countries have increased their reliance on anti-dumping actions and countervailing duties.*
4. *Standards, technical regulations, and SPS measures have proliferated at the expense of exports or potential exports from developing economies.*
5. *Deep fissures persist on matters relating to certain aspects of international labour standards, trade and environment linkages, TRIPS, and the "four Singapore issues" (trade and investment, trade and competition policy, transparency in government procurement, and trade facilitation).*

Source: Asasen, Asasen and Chuangcham (2003).

² Authors' interview data, 27 February, 2008

Every ASEAN country is associated with a Free Trade Agreement (FTA). According to the Australian Department of Foreign Affairs and Trade³, the Trans-Pacific Strategies Economic Partnership Agreement, and ASEAN⁴ the benefits of FTAs include:

- Creates jobs.
- Boost income in local communities.
- Increase standard of living.
- Builds trade.
- Promotes growth and development.
- Create greater market opportunities.
- Enables industries to enjoy bigger economies of scale.

However, ASEAN FTAs (see Table 24 in Appendix 4) and their different relationships in international trade are very complex (see Figure in Appendix 43). How FTAs actually benefit skills and employment strategies within ASEAN remains to be explored. Indeed impact of regional trade agreements around the world in access to markets is being analysed by international organizations such as the latest OECD report on *Globalisation and Emerging Economies* (2008) (see Box 3 below).

³ www.dfat.gov.au/trade

⁴ ASEAN-Japan Summit: www.aseansec.org/13190.htm

Box 3. Impact of Regional Trade Agreements

The collapse of the centrally-planned economic systems in the late 1980s and the opening up of the formerly planned transition economies to the global economic system has led to major changes in the nature and patterns of global trade and investment; such changes may be called institutional changes. With the emergence of transition economies, some 260 million workers entered the global labour market for the first time. Furthermore, the opening up of China released some 760 million workers, and the liberalisation of India, another 440 million into the market (Venables, 2006). These institutional changes, which are essentially internal domestic changes within individual countries, have had dramatic scale effects on the global economic system. Equally important have been the institutional changes brought about by the development of trans-national free trading arenas. The creation of the EU internal market in 1992 and the formation of NAFTA in 1994 have been critical moments in the global trading system. These trans-national institutional changes have lowered tariff barriers across a wide range of trading links. These free trade zones have also prompted smaller developments in other parts of the world, such as ASEAN and MERCOSUR, as well as encouraged many of the emerging transition and developing economies to open up. All of these institutional developments promote trade because they allow goods and services to move more freely across geographical space.

The major outcome of these institutional changes has been the increasing relative importance of these super-regions within the global economic system. In particular, by 2005, the three most economically powerful super-regions of NAFTA (USD 14.72 trillion), the European Union (EU) (USD 13.29 trillion) and South and East Asia (USD 10.06 trillion) had roughly comparably sized economies (World Bank, 2007).

Negotiations for new PTAs (Preferential Trade Agreements) – overwhelmingly FTAs, but also some customs unions and partialscope agreements – have increased pace since 1999/2000, and even more so since the launch of the Doha Round (Crawford and Fiorentino, 2005). Eastern Europe, Africa and Latin America have long been involved in PTA activity. East Asia, which previously relied on non-discriminatory unilateral and multilateral liberalisation, is now playing PTA catch-up, as is south Asia. All the major regional powers – China, India and Japan – are involved in Asian PTAs, as are the USA, EU, Korea, Australia, New Zealand, Hong Kong, China, other south-Asian countries and the ASEAN countries.

Indonesia's main FTA is ASEAN Free Trade Area (AFTA), which has an accelerated timetable for intra-ASEAN tariff elimination with relatively simple rules of origin (40% local content across the board). There are plans for an ASEAN Economic Community – a single market for goods, services, capital and skilled labour – by 2015. This looks good on paper, but ASEAN has made very little progress beyond tariff elimination, for example on NTBs (Nontariff trade Barrier), services, investment and mutual recognition of standards. These "AFTA-plus" items – all concerning regulatory barriers to trade – are far bigger obstacles than tariffs to regional economic integration. Indonesia is not as active with FTAs as its ASEAN neighbours: Singapore, Thailand and Malaysia. It has one bilateral FTA with Japan, though it is considering others. But it is part of ASEAN FTAs with several third countries. Some of these negotiations, for example with China and South Korea, have made headway with tariff elimination, but so far they have done little to tackle far more important regulatory barriers to trade and investment.

Source: OECD (2008) 'Globalisation and Emerging Economies: Brazil, Russia, India, Indonesia, China and South Africa', OECD.

Despite the expected benefits of Trade Agreements, they can also exacerbate regional inequalities:

In the current phase of globalisation, highly educated and skilled individuals are now better able than ever to exploit their knowledge assets via mobility. This is because the institutional and technological changes driving the current processes of globalisation also allow highly skilled individuals to move internationally in order to reap the rewards of their human capital. If both pecuniary and technological spill-overs are becoming more localised in global city-regions, such regions will also become the dominant employment destinations for highly skilled labour. There is already plenty of evidence that this process is occurring. It is well documented that the gap between the wealthiest and poorest countries has steadily grown over the last two centuries, and most of this has taken place during the periods in which shipping costs and global trade have expanded at their fastest rates (Venables, 2006). This phenomenon has occurred in particular over the last two decades (Leamer, 2007). These arguments also apply to individual countries. A rapidly widening income gap between high and low skilled individuals has already emerged within advanced economies (Scheve and Slaughter 2007), intra-national regional inequality is increasing all over the world (Brakman and van Marrewijk, 2008), and internal labour migration and enlarging regional inequality is a major feature of the restructuring of the BRIICS countries. The local coexistence of pecuniary spill-overs, technological spill-overs and human capital inflows, will therefore continue the trends towards regional inequality [...]. This is true both for regions and countries within advanced areas of integration, such as those in the EU or NAFTA, and also for developing regions and countries (Venables, 2005), such as China, ASEAN, or Mercosur. (OECD 2008b: pg 105)

While trade liberalisation generates income growth and has been the major source of prosperity in the region, it also generates shocks on the labour market as jobs are created and lost. Moreover, while market access provides opportunities for new jobs, only jobs for which skills exist might be created. More analysis is needed on FTA provisions regarding labour standards and the movement of people.

Persistence of poverty

Although the ASEAN region has seen significant reductions in poverty, nearly 150 million working people live in poverty. Based on the USD 1 per day threshold, poverty has been virtually eliminated in Malaysia and Thailand. Indonesia, Viet Nam, Lao People's Democratic Republic and the Philippines will or are close to achieving this goal by 2015. However 56.5% of working people in ASEAN countries in 2006 were still on or below USD 2 a day (see Table 13 below) (ILO, 2007).

Table 13. Working poor indicators, 1996 and 2006

	US\$1 a day working poor				US\$2 a day working poor			
	Millions		Share in total employment (%)		Millions		Share in total employment (%)	
	1996	2006	1996	2006	1996	2006	1996	2006
ASEAN	36.7	28.5	16.9	10.8	140.1	148.7	64.5	56.5
East Asia	145.0	95.0	20.3	12.1	442.9	347.2	61.9	44.2
South Asia	250.8	196.9	51.9	33.0	427.1	500.2	88.4	83.7

Source: ILO, Trends Working Poverty Model, 2006. For more information on estimation methodology, see S. Kapsos, "Estimating growth requirements for reducing working poverty: Can the world halve working poverty by 2015?", Employment Strategy Paper, 2004/14 (Geneva, ILO, 2004); available online at www.ilo.org/public/english/employment/strat/download/esp14.pdf.

Source: ILO 2007.

Poverty reduction is a key macro-policy objective in Southeast Asian countries. One of the best ways to combat poverty is to provide the poor with basic levels of skills that are certified so they can be used effectively in the labour market. In addition, creating jobs for the unemployed can be achieved through helping employed people to up-skill and be promoted into higher qualified jobs in what has been called the "ventilation" of the labour market (ASEAN, 2003). Women in particular can have greater difficulties entering the labour market unless they have paper-based qualifications to prove their skills levels.

The target groups for poverty reduction/fighting against exclusion are: women, unemployed youth, people with disabilities, ethnic minorities, and people living in rural communities. Skills development activities in this context refer to life-skills based-education, capacity-building in social sectors such as health, and training of disadvantaged groups in primary sectors such as agriculture, and entrepreneurship (Palmer 2007).

Indeed employment is the major route out of poverty as discussed by a recent OECD publication (see box below with key messages).

Box 4. Key Policy Messages for Pro-Poor Employment

- *Productive employment and decent work needs to be a key objective of development co-operation and receive greater attention in policy dialogue with developing countries. Productive employment and decent work are the main routes out of poverty, including in fragile environments, and are crucial for achieving the MDGs.*
- *Specific measures need to be taken to improve employment, productivity and working conditions in the informal economy, facilitate formalisation, encourage entrepreneurship and promote more, productive and decent employment in the formal economy.*
- *The participation of women and young people in the labour market needs to increase, including by addressing gender-based discrimination, and the constraints and barriers that women and young people face as well as by strengthening measures to improve access to demand-driven vocational training.*
- *Efforts by partner countries to improve the availability of reliable, sex-disaggregated statistics should be supported because these are crucial for understanding the functioning and dynamics of both the formal and informal labour markets and enhance evidence-based policy-making.*

Source: OECD (2009) *Promoting Pro-Poor Growth: Employment*. OECD: Paris.

Hollowness in the industrial structure

Industrial composition is fragmented, with a high proportion of SMEs but often with a "missing middle", a hollowness in the industrial structure where there is a lower than average presence of medium firms (see Box below).

Box 5. Missing Middle

Medium-sized firms constitute a very tiny segment, likely less than 1%, of the SME sector. However, they have a much larger share in SME sector output and exports. As a result, the industrial structure remains characteristically "hollow" in most parts of ASEAN. This "missing middle" reflects the absence of a dynamic core of mid-range enterprises or support industries.

This "hollowness", mirrors the lack of dense networks of domestic clusters of firms and of inter-firm linkages. These alternative modes of industrial organisation and co-operation yield considerable collective gains in economic efficiency, flexibility and competitiveness.

Source: Asasen and Chuangcham (2003).

SMEs (including micro-enterprises) are an important, largely untapped, component of the Southeast Asia's economy. SMEs outnumber large enterprises in ASEAN member countries in both the quantity of establishments and the share of labour force they employ. In the ASEAN member countries for which data are available, SMEs account for between 26% and 58% of total value added and between 52% in Singapore and 99% of employment in Indonesia (Table 14) (ILO, 2008). As stated within their "ASEAN Policy Blueprint for SMEs Development 2004-2014" SMEs are the largest source of domestic employment across all economic sectors, in both rural and urban areas. The SME sector also provides opportunities for women and the young to participate in the economic development of the country (ASEAN, 2004). According to the ILO (2008), SMEs are a heterogeneous group comprising activities that range from "survival" (such as street vendors) to "sophisticated" (formal enterprises exporting and investing abroad). Typically SME production processes rely on labour-intensive and/or simple technologies, including processing and manufacturing activities.

Table 14. Contribution of SMEs to value added, employment and export production, most recent years (%)

	Year	Value added	Employment	Exports
Indonesia	2003	57.6	99.4	10.6
Malaysia	2005	47.3	65.1	15
Philippines	2001	32.0	70.0	-
Singapore	2005	34.7	51.8	16
Thailand	2006	-	68.1	10
Viet Nam	2004	26.0	77.5	20

Note: Data for exports refer to the most recent year available.

Source : International Labour Organization, 2008 sourced for value added and employment data, UNCTAD in M. Fujita: "DFI by MNEs in Global Context: Implications for ASEAN", Paper prepared for ASEAN-Japan Seminar on FDI: Sharing Japanese SME's dynamism in ASEAN Integration, 28-29 May 2007. For data on exports, UNCTAD: "Improving the Competitiveness of SMEs through Enhancing Productive Capacity" Doc. No. TD/B/COM.3/51/Add.1, Geneva, 2003.

SMEs are mostly owned and operated by the (founding) entrepreneurs and members of their extended families. The entrepreneurs themselves tend to play a crucial role in the success or failure of the SMEs concerned, such a commanding influence (while understandable in terms of business development) can be a constraint in accessing finance from banks and venture funding sources (Asasen *et al.*, 2003).

As Asasen *et al.* (2003) noted, the statistical data in Southeast Asian countries is not up-to-date. However available information identifies three significant aspects:

1. SMEs are "massive" in terms of number in most countries, even with the exclusion of micro- and agricultural enterprises (see Table 15).

Table 15. Number of non-agriculture SMEs in selected Southeast Asian countries, various years (in thousands)

Country	Actual 1990	Actual 1996	Estimated 2000
Brunei Darussalam	3.8	4.1	5.0
Cambodia	n.a.	25.3	25.4
Indonesia a/	12,045.6	16,416.0	16,000.0
Lao DPR	n.a.	n.a.	n.a.
Malaysia	n.a.	18.9	19.0
Myanmar	n.a.	34.4 b/	n.a.
Philippines	77.8	99.8	81.8
Singapore	31.5	47.0	54.0
Thailand	n.a.	311.5 c/	350.0
Viet Nam	1.0	30.0	2000.0

Source : Asasen, Asasen and Chuangcham, 2003

(a) Small enterprises in agriculture numbered some 22.5 million in 1996.

(b) As of January 1998.

(c) 1997.

(d) Including state-owned SMEs.

2. SMEs account for the large bulk (upward of 90%) of the number of all private-sector firms within ASEAN (see Table 16).

Table 16. SMEs in ASEAN countries

Country	SMEs as % of all firms	SME workforce as % of total employment
Brunei Darussalam	98	92
Cambodia c/	99	45
Indonesia	98	88
Lao DPR	n.a.	n.a.
Malaysia	84	39 c/
Myanmar b/	96	78
Philippines	99	66
Singapore	91	52
Thailand	96	76 c/
Viet Nam	96	85

Source : Asasen, Asasen and Chuangcham, 2003.

(a) Estimates (b) 1998 (c) Manufacturing sector only.

3. SMEs also employ an overwhelming proportion (75-90%) of domestic workforce, especially young persons and women.

Women own and operate approximately 30% of business firms in the formal sector in such countries as Indonesia and Philippines (Asasen *et al.*, 2003). These enterprises tend to be "younger" in terms of age of their establishment and the period of their operations. They also have relatively fewer employees than the average SME. Women entrepreneurs have expressed a strong desire to build up their business capabilities and competitiveness. They are eager to undertake capacity building measures and undergo the necessary

training in management and organisational skills, and in productivity and quality enhancement processes (Asasen *et al.*, 2003).

However, a constraint in analyzing SMEs is that there is a great diversity in the definition and classification of SMEs among Southeast Asian countries, which reflects the significant differences in aggregate income and its distribution, in production structures and capabilities, and in industrial and technological characteristics among economies (Asasen *et al.*, 2003). The number of workers in micro enterprises varies between 1-4 in Indonesia and 1-9 in the Philippines. Greater variation relates to the the number of workers included in small enterprises; from less than 10 in Brunei Darussalam, 10-50 in Myanmar, or 10-99 in the Philippines. Medium enterprises also present variation in the classification of number of workers; from 11-100 in Brunei Darussalam, 100-199 in the Philippines, 51-200 in Thailand (manufacturing and services) or 16-30 in Thailand (retail trade). Variations also exist in relation to the definition by capital investment, the value of assets and the annual sales values although data is limited (see Tables 22 and 23 in Appendix 2).

Important limitations exist in relation to the definition of SMEs in the region with strong variance among countries, thereby increasing the difficulties for further analysis and comparison (see Appendix 2). In addition to the lack of agreement on the definition of SMEs, data and information on the SME sector are not up-to-date across the developing region. The shortage is both acute and chronic and it has persisted despite the intrinsic importance of SMEs to Southeast Asian economies and a renewed policy focus on them in recent years. As Asasen, Asasen and Chuangcham (2003) states “this significant weakness in statistical service has imposed another constraint on policy design and impact assessment”. Among these constraints are the difficulties to assess the state of skills in SMEs in the region and the strategies that need to be put in place to maintain and upgrade skills for competitiveness and innovation.

Growing informal economy

Many countries in Southeast Asia have large – and growing – informal economies and in parts of this region, especially in low income Asian countries, agriculture remains the main source of income for large sections of the population. Informal economies represent a very important target for policy; most of the poor and those marginalised from the growth process are to be found here, especially in the “new” ASEAN countries (CLMV countries – Cambodia, Laos PDR, Myanmar and Viet Nam) which have large percentages of people in poverty. The existing formal training apparatus in these countries is usually inaccessible to the poor. Therefore as the ILO 2006 report on decent work in Asia states, while there is a need for skills development systems to meet the changing demands of international competitiveness, a strategy which only focuses on the skills demands of dynamic sectors “may not be enough to reduce poverty”, since the fastest growing sectors might not be where most of the population are employed. Therefore as Palmer (2007) identifies, there is a need for basic skills for poverty reduction and growth to ensure that inequalities do not widen further with an expanding informal economy.

The expansion of the informal economy correlates with the process of urbanisation. Although agriculture employment is declining, the number of own-account workers is expected to increase by over 43 million. The informal economy is likely to account for 60% of ASEAN’s total employment by 2015 fuelled by the rapid growth of many national urban populations in the region and the ongoing expansion of their service sectors. Countries where the increase in urbanisation is greater, such as Cambodia, Indonesia, the Lao People’s democratic Republic, and Viet Nam are likely to face greater social and economic challenges (ILO, 2007).

Migration and mobility

Migration and mobility (both between and within countries) is driving the need for increased skills portability (transferability and recognition). As Palmer (2007) notes the challenge of developing a regional skills standard is multi-faced. Therefore looking at narrow occupation skills standards appears to be a major problem; instead there is a need to take a sectoral approach to skills standards and look at all competencies that are performed in a given sector. Many countries in the region have become more interested in adopting National Qualification Frameworks (NQFs) which are often seen by governments as a solution to both national and regional skill recognition. However, there is increasing debate in both policy and academic literature about whether NQFs are suitable for developing countries, the consensus of opinion at the moment suggesting that there is not (Palmer 2007). The reasons are found in the mobility of workers between countries needing a flexible approach to qualifications that can be recognised among countries. NQFs in developing countries also have the challenge of lacking recognition in developed countries.

According to Kaur (2007), International Labour Migration (ILM) across sovereign national borders in Southeast Asia expanded rapidly in the 1980s. This expansion occurred in response to the economic and demographic differences between countries in the region, the role played by migration networks, transformations in communications, and lowered transport costs. Accordingly, new regional migration patterns have emerged, including: fast growth in the demand for skilled and less-skilled migrants in particular occupational categories; the creation of sub-regional labour markets; and the increasing feminisation of the migrant labour force. Singapore, Malaysia and Thailand, which had been associated with labour immigration prior to the Second World War, have again become countries of destination for migrant workers. Singapore and Malaysia in particular—which are the two main labour-importing countries—have imposed immigration policies that are symptomatic of the increased governance of labour migration and the need to find a balance between the issue of sovereignty and a liberalised immigration policy. The immigration debate in these countries reflects the spread of individual rights and the global call to incorporate mechanisms that provide protection for workers. Nevertheless, domestic workers have consistently been excluded from most forms of labour protection, demonstrating the continuation of the longstanding "informal" status accorded to domestic work, a situation that has existed since colonial times.

The box below shows the migration status of the most important countries in terms of labour migration. There are a number of traditional labour-sending countries such as the Philippines and Sri Lanka and labour-receiving countries in the Middle East, Hong Kong SAR and Singapore. The Republic of Korea has changed from a labour-sending country in the early 1980s to a labour-receiving country by the end of the same decade. Thailand also shows a migration transition in that it has become a net receiver of labour since the early 1990s – a result of fast growth. For India and China, international labour migration is insignificant in relation to the population and the labour force. Yet states such as Kerala in India have relied on overseas labour migration for a considerable time (Wickramasekera 2002).

Box 6. Migration Status of Asian Countries

Labour sending countries

- Bangladesh, China, Indonesia, Nepal, Philippines, Sri Lanka, Vietnam

Labour sending and receiving countries

- India, Malaysia, Pakistan, Thailand

Labour receiving countries

- Middle East, Brunei Darussalam, Chinese Taipei, Japan, Republic of Korea, Hong Kong SAR, Singapore

Source: Wickramasekera, 2002.

Lack of entrepreneurship development

Asasen *et al.* (2003) note that training in entrepreneurship development has not been pursued on a sustained basis. The promotion and incubation of a culture of entrepreneurship, innovation and networking has not been given on-going attention in most parts of Southeast Asia. Although there have been numerous training programmes in SME business and human resource development, of which many have been funded by both multilateral agencies (including the Asian Development Bank, the World Bank and UNDP) and bilateral donors (notably Japan); most of these programmes are concentrated on the generation of specific skills in (formal) enterprise management, finance and marketing.

Bottlenecks in entrepreneurship development are manifest among several high growth economies such as China or India which is partly attributable to their heavy reliance on the transfer, adaptation and dissemination of imported technologies in industry management. Asasen *et al.* (2003) note that it is likely that these economies cannot sustain their rates of export competitiveness and income expansion without a larger base of domestic entrepreneurship and technological capabilities. This consideration takes on special significance in view of the high levels of unemployment and disguised unemployment which have remained after the 1997-1998 economic crisis; there is also a large pool of persons seeking to enter the workforce year after year.

There is virtually no follow-up monitoring, remedial assistance, or additional training for the same group of SME beneficiaries which has prevented the maximum utilisation of the knowledge and capabilities gained by trainees, and the overall utility and effectiveness of the concerned programmes. Notably, there is no emphasis on building up local capabilities for training in entrepreneurship development (Asasen *et al.* 2003). In particular, financial capabilities of SMEs constitute one of the greatest challenges for this sector to survive through the economic crisis and therefore it is a key skill to be developed in OECD and non OECD countries (OECD 2009).

Skills mismatch

Skills mismatch refers to a condition whereby the skills and education of the existing workforce does not match the needs of firms/industries. It is the gap between the supply and demand for qualitative skills of the existing or new workforce (USAID/Asia and Near East Bureau, 2007). Table 17 shows the key education indicators for selected ASEAN Member Countries.

Table 17. Key education indicators, selected ASEAN Member Countries, most recent year (%)

	Net enrolment rate, primary	Survival rate to grade 5	Transition from primary to lower secondary	Net enrolment rate, secondary	Tech. & vocational enrolment as share of secondary enrolment
	2006	2005	2005	2006	2006
Lao PDR	83.7	62.0	77.0	34.9	1.2
Cambodia	89.9	62.2	81.2	30.8	3.2
Myanmar	99.6	71.5	73.8	45.7	-
Viet Nam	94.5	92.1	92.7	61.0	5.0
Indonesia	95.5	84.4	88.5	59.0	13.6
Philippines	91.4	74.0	99.1	60.4	-
Thailand	94.2	-	-	71.0	15.5
Malaysia	99.9	99.3	99.6	68.7	5.9

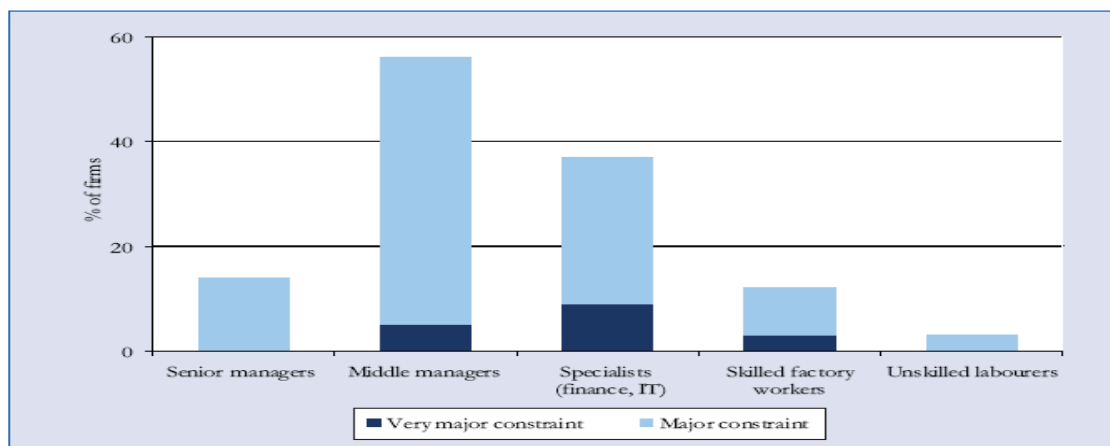
Notes: '-' denotes data not available; enrolment data are from 2006 except Malaysia (2005); survival and transition rates are from 2005 except Malaysia (2004).

Source : International Labour Organization, 2008 sourced UNESCO Institute for Statistics, access July 2008.

The second Asia Business Outlook Survey (2007) of multinational enterprises in ASEAN member countries reported that shortages of middle managers and professionals (such as IT and financial staff)

were presenting serious constraints to growth (see Figure 20 below). With the expansion of the economy into the service sector the shortage of professionals (managers, middle managers and specialists) can be a critical obstacle for ASEAN economic integration towards 2015.

Figure 20. Staff shortages as a constraint, Southeast Asia (%)



Source: EIU: Asia Business Outlook Survey, 2008.

Skills development of the labour force requires an enabling environment so that the provision of skills is balanced with the provision of opportunities to use these skills. Therefore, skills development should be integrated with employment promotion - for both the formal and informal private sector. In particular, international co-operation in developing an enabling environment for micro- and small enterprises is of critical importance. It is essential to examine the interaction between country approaches to skills development and country approaches to skills utilisation. Past experience across countries suggest that training alone will, in most cases, not result in positive development outcomes. International co-operation in skills development needs to be situated within a wider co-operation framework that is supportive to the utilisation of skills (Palmer, 2007).

According to the ILO (2008), efforts to strengthen workforce quality and to better align education and training systems to meet labour market demand should be based on a country's economic development objectives, shifting demographics and the existing capacity of education and training institutions. In some ASEAN member countries, a shift in public expenditure priorities may be needed. The developing economies in ASEAN allocate a much lower percentage of GDP to education than the more developed countries. Increase in investment should go hand-in-hand with upgrading the efficiency, responsiveness and transparency of the education and training system, otherwise more investment will yield little result.

ILO (2008a) identifies the following elements in the improvement of training systems:

1. Continued expansion of the TVET system in the least-developed ASEAN member countries and in some middle-income economies and its upgrading of quality and relevance to the labour market.
2. Encouraging co-operation between the business community and education and training providers is an effective and feasible way to reduce the mismatch between TVET outcomes and employment opportunities.
3. Employer's involvement in the management of training institutions helps to keep abreast of changing technologies and practices in the workplace, shifting demand for specific skills and new competency standards. They become part of the feedback system to training providers on whether or not the quality of training matches workplace expectations.

Capability building skills development is not widely distributed even among SMEs in the top layers within priority sectors and industries. This has been another perennial bottleneck in SME sector development and integration in ASEAN (Asasen *et al.*, 2003). Although enterprise capabilities and competitiveness can be built-up or acquired through the provision of Business Development Skills (BDS) and extension activities from the public and private sectors, such provision can be made at full or partial recovery of costs in cash and/or in-kind. Generally, however, the effectiveness and adequacy of BDS for SMEs have often been "problematic" in most parts of Southeast Asia. The private supply of BDS and extension activities is not well developed, sufficiently diversified, directly relevant or easily affordable. This is especially true in most ASEAN countries and not just in those economies where the private sector is weak. Thus, until the situation changes substantially, public-sector agencies will have to be the principal source of BDS and extension activities for domestic firms, SMEs included. However, public-sector BDS are generally not that flexible and adaptable to changing needs. They also tend to be managed and delivered on a largely bureaucratic manner, and on a supply-driven basis. Furthermore, the inherent lack of financial resources and skilled human resources means that public provision of BDS is unlikely to be adequate relative to needs. New and innovative modalities for the delivery of BDS and extension activities to SMEs are needed. As much as possible, the main objectives should be substantive relevance and extensive outreach.

Governance

Good governance is a key priority for Southeast Asian countries and for international agencies in the region, such as USAid, DFID, UNDP, AusAid, EuropeAid Asian Development Bank, the World Bank, Japan Bank for International Cooperation and the Japanese Government (the major bilateral donor in Vietnam). It refers to building efficient and democratic institutions, human rights, fighting against corruption, and peace and security (*e.g.* fighting against extremism and terrorism). Target groups to promote good governance are decision-makers, public administrative staff, civil society, journalists and jurists. Several international agencies have specific programmes related to capacity building skills which intend to differ from the classical approach of institution building (Palmer 2007).

Governance of labour markets is of critical importance, especially as the need for local flexibility is emerging as a key action for fostering innovation, entrepreneurship and local cohesion in local economic development. However, meeting local needs is still a challenging task, as indicated in a recent Issues Paper by the OECD:

Decentralisation reforms in labour market policy have helped decision-making to occur closer to the 'reality on the ground', but there is still some way to go before local employment service staff have the autonomy to make a significant contribution to broader local strategic goals. Achieving local objectives often requires cross-working between a number of different policy areas (such as employment, vocational training and economic development) to achieve integrated local strategies. This depends on the ability of local policy makers to align their policies and services, which in turn depends on the *flexibility* they have to influence the delivery of policies and services. By providing such flexibility, national authorities can make it possible for local actors to work together on the complex and cross-cutting labour market issues which affect their particular community, to innovate as necessary and to adapt policies to local needs. (OECD, 2008)

The recent high-level conference organised by the OECD LEED Programme on *Decentralisation and Co-ordination: The Twin Challenges of Labour Market Policy* (Venice 17-18 April 2008) produced the following statement in relation to the management of labour markets (see Box 7):

Box 7. The Venice Action Statement

The participating ministers and other high level delegates from OECD member and non-member countries agreed on a "Venice Action Statement on Enhancing Flexibility into the Management of Labour Market Policy". The statement acknowledges that decentralisation which has taken place in many OECD countries in employment policy over the last 10 years has helped decision-making to occur closer to the "reality on the ground", but there is still some way to go before local labour market agencies have the capacity to make a significant contribution to broader local strategic goals. The statement calls for action in 6 domains:

1. **Inject flexibility into the management of labour market policy** so that local staff should have the ability to make decisions on the orientation of public programmes and services, in addition to achieving predetermined objectives.
2. **Establish an overarching management framework which embeds local flexibility** to ensure that aggregate national policy goals continue to be met.
3. **Build strategic capacity.** Staff within labour market agencies should have a strong knowledge of local business practices, local economic conditions, industry developments, and appropriate methods to identify skills gaps and deficiencies in local economic sectors, and be able to lead comprehensive strategic planning exercises.
4. **Build up local data and intelligence.** Building an understanding of economic and labour market conditions demands, as a prerequisite, refined data collection and analysis as well as expertise in a wide variety of fields.
5. **Improve partnership mechanisms.** Labour market agencies should collaborate effectively with business, trade unions, civil society, education institutions, research centres, economic development agencies and local authorities. Partnerships have a certain value in bringing different stakeholders together to develop appropriate and realistic strategies.
6. **Improve administrative processes.** Aligning policies through institutional reform such as decentralisation is a difficult challenge. A wide-scale review of how administrations function, cooperate and manage policies is required to support better collaboration between different administrative layers and between different policy institutions.

Source: OECD Venice Conference Action Statement, April 2008.

4. Policy responses and initiatives

This section discusses policy frameworks in the region and key initiatives taken at the international, national and local level to address skill challenges. The focus is on policies that govern the supply responsiveness of ASEAN labour markets as demand on these markets depends on many other policies, especially exchange rate policy, trade policy and policies affecting the cost of capital.

Skills Recognition

Arguably, a major issue in ASEAN is a common framework for skills and qualifications. According to the ILO (2008), “to improve regional governance of labour migration, the management of how skilled workers are assessed and accredited is emerging as an important issue throughout ASEAN member countries. A major barrier to achieving an ASEAN-wide skills recognition system has been the uneven development of national skills qualifications frameworks across the countries more recently admitted into ASEAN”. In response, a sub-regional skills recognition arrangement initiative was proposed specifically for Cambodia, the Lao People’s Democratic Republic, Myanmar, Viet Nam and also Thailand. The regional qualifications framework was meant to complement the national qualifications frameworks. Competency standards in certain occupations would also be established. However, in 2008, the ASEAN Economic Ministers deferred the development of a regional qualifications framework until all countries had developed their own national qualifications system.

A related initiative, the "ASEAN Framework Agreement on Services", aims to eliminate restrictions to trade in services of ASEAN member countries and deals with skills and competency recognition. Recent developments include the Mutual Recognition Arrangements (MRAs), a framework designed to facilitate the free movement and employment of qualified and certified personnel within the region. MRA’s have been established for engineering and architecture, among other professions. These various intra-regional initiatives to accredit occupational qualifications can support different economies in ASEAN to address changing labour market demands and meet rising skills shortages.

The ILO is assisting ASEAN member countries in establishing a skills recognition system by updating its “Regional Model Competency Standards”. The ILO is also helping to generate more accurate information on labour markets; assisting sending countries in training and preparing their workers for employment abroad; conducting research on remittance and returning migrants; and developing a platform for regular dialogue on labour migration issues in the region” (ILO, 2008, pp. 74).

The developmental state model is an example of national approach to training initiated with Asian "tiger" economies for the Republic of Korea, Singapore and Hong Kong. According to the ILO (1999), these countries had to break into world markets already dominated by the developed economies. Moreover, they had no natural resources which they could use as basis for economic growth; they were obliged to use first their labour, and later their skills, as sources of competitive advantage. In their attack on world markets the state has played a more active role than has been the case in the market model economies. It has been active in both initiating growth through export-oriented policies, and thereby shaping the industries that provided a competitive advantage, and also in developing national human resources. Initially these economies had only one advantage in world markets, a plentiful supply of cheap labour, and this led to the development of low-skilled, low valued-added forms of production. Government policies were designed to make the best use of this and establish forms of production which could utilize low-cost, low-skilled labour. These "tiger" governments were particularly effective at maintaining strong control over the education system and ensuring that in the initial phases of economic growth, the system delivered the basic literacy and numeracy skills that industry needed. Unlike countries in the market model, interest groups were not permitted to intervene to determine the form of education and training provision. Given the limited demand for skills from industry, there was no rush to develop elaborate systems of secondary or

higher education, as occurred in some of the African countries. In 1993 the World Bank recognised that East Asia governments made the right decisions by restricting their investment to providing basic primary, and, later, secondary education. Therefore it was not the market that was shaping the supply of education and training, but the governments (See Table 18 for the phases in education development and Box 8 for the conditions for high skilled development in the East Asian Tigers) (ILO, 1999).

Table 18. Phases in education development

	Purpose	Requirements	Govt Policy	Education focus	
Phase one	Attracting foreign investment or establishing indigenous industries	Low-cost, Low-skills labour	Strong control over education direction	Basic literacy and numeracy skills	
Phase Two	Faced with full employment, rising wages and intensified competition	Move towards high-value added forms of production	Trade and Industry Policies	High level of general (secondary) education and new craft and technical skills	Coordinated the supply of skills to meet anticipated changes in demand - creation of Super-ministries
				Korea: Economic Planning Board 1. Technical and vocation education 2. Levy on the larger companies to encourage and fund industrial training 3. Government provided publicly funded training institutes	
				Singapore: Combined efforts of Ministry of Trade and Industry; and the Economic Development Board 1. More vocational and technical education - apprenticeships 2. Skills development fund	
				Hong Kong did not have such an influence on the types of new industries established): 1. State accepted responsibility for technical training 2. Establish and fund - Vocational Training Council 3. Employer-based committees	
Phase Three	New organisations producing high value-added goods and services	High knowledge input and new forms of work	Governments attempting to create knowledge-based economies	Upgrading the education and training system (produce engineers and scientist - innovation products)	
				Develop a new breed of highly skilled employees capable of operating in organisations at the cutting edge of world markets (emphasis on soft skills: communication, problem solving and teamwork).	

Source : ILO (1999).

Box 8. Conditions for high skill development in the East Asian Tigers

1. *Strong commitment from government at all levels in the process of skills formation.*
2. *Ensure that the education system produces young people with strong intermediate level skills, especially in the areas of science, math, IT and literacy.*
3. *Groups of employers in strategic economic sectors recognise and are committed to developing high level science and technology skills.*
4. *Skill formation in the workplace is regulated by government intervention to ensure minimum standards and long term investments are made in strategic areas.*
5. *Worker's organisations are committed to high skill development and continual life-long learning.*
6. *Appropriate academic knowledge is provided at tertiary level education institutions in order to underpin practical skill formation in the workplace.*

Source: Ashton, (1999).

Employment and skills policy frameworks in the region

Across Southeast Asia long term competitiveness and sustainable employment growth depends on the level of human capital development. However, there are no precise agreements on the most suitable strategies for achieving sustained employment or supporting high skill development. Even if a strategy works well in one country there is no guarantee that it will work effectively in another country. Each country in Southeast Asia will have its own unique development characteristics and goals. As a consequence any reform will have to take into account these unique circumstances, including: geographical topography, institutional structures, and the nature of economic demands and cultural morose in that country. The failure to do so will result in the development of an employment or skill system that at best is ineffective and at worst retards economic growth.

Nevertheless, it is important to understand what reforms are being implemented across the region and how different initiatives are helping people into the labour market, supporting productivity and tackling unemployment. The case studies chosen for this section demonstrate the contrasting approaches or models being used by different countries in Southeast Asia. The first case study is Singapore where a top down approach is being used to tackle employment and ensure that the country follows a specific path to development. This contrasts with Indonesia where a more decentralized approach is being used to reduce unemployment. There are other countries in the region which also exhibited different approaches. A case in point is Hong Kong where the formalized education system is being used as the prime vehicle to develop skills and support structural change. In contrast, Malaysia is turning to the workplace as a means for encouraging skills development and growth. Each of these approaches is not necessarily better than another, and they all represent political ways of managing unemployment and labour market restructuring.

*Singapore: a top-down approach to skills development*⁵

The Singapore model is unique and demonstrates the importance of ensuring skill strategies are linked to identify economic goals and their future needs. In Singapore importance is also attached to the workplace as a means of supporting skill development and the significance given to identifying future skill requirements. However, it is important to realise that a strong emphasis was given to developing the education base prior to supporting skills, especially with regard to producing young people with strong intermediate level skills in the areas of science, math, IT and literacy. Singapore has also used in the past increases in the minimum wage to move the demand for labour up-scale in the industrial structure.

Given the small geographical region of Singapore it would be difficult to implement a similar approach in larger Southeast Asian countries. Nevertheless, it might offer some lessons for decentralized provinces or regions, especially in the light of the fact that many countries are devoting decision making for policies on decentralized structures.

In Singapore there is close synergy between economic development and skills formation. During the early stages of the country's economic development in the 1960s, the responsibility for economic development and skills formation rested with the Economic Development Board (EDB). This ensured that skills formation was directly linked to the country's economic goals. Emphasis was given to reducing unemployment levels through attracting inward investment. In order to support this process a total of 11 500 technical institutes were established during this decade. However, the EDB soon realised there were limits to adopting a labour intensive industrialisation policy, particularly in relation to moving up the value chain. So over the next decade the EDB encouraged investment into higher value-added industries including: precision engineering, software, financial services, information technology, bio-technology and robotics. In order to support these developments further investments occurred in technical education, particularly for research and development in higher education. Under these changes, responsibility for technical education was transferred to the Ministry of Education, leaving the EDB to focus on issues concerned with economic development. Once again growth rates of 10% were achieved for over a decade.

Since the 1990s new influences have brought about a re-think in government policy, namely the Asian financial crisis and the third industrial revolution. The country's EDB identified new key clusters of industries to enable Singapore to become a global leader in the knowledge economy (see Table 19). For each of these sectors, the EDB has developed a strategic plan, containing objectives and targets.

⁵ Note: The majority of evidence from the case studies for Singapore and the Hong Kong Special Administrative Region were obtained from empirical field work undertaken by Dr. Marcus Powell during a consultancy assignment for the European Union. This involved extensive discussions and interviews with government policy makers, employment planners, those working at employer service centres and officials who collect labour market statistics. The title of this assignment was "Consultancy on the Establishment of a Labour Market Observatory in Botswana". The purpose of the assignment was to understand international best practice for formulating labour market policies, especially in relation to how labour market information is collected, collated and utilized in the policy process. The assignment took place over the period January 2007 to September 2007.

Table 19. Sectors identified for economic development in Singapore

Key Cluster	New Businesses
Electronics	Alternative / Clean Energy
Information Media	Environment /Water
Precision Engineering	Life Style and Sports
Transport Engineering	Natural Resources
Bio medical Services	
Education	
Chemical engineering & engineering	
Logistics	

So which organisations are involved in supporting skills development and what are their relationships to each other? In Singapore the following ministries are involved in this process: the Ministry of Trade and Industry, the Ministry of Manpower, the Ministry of Education, the Economic Development Board and various ministerial divisions. However, the Ministry of Trade and Industry and its operational unit, the Economic Development Board, have a strong influence on the activities of the others. Put simply, the priority for economic development determines the process of skills formation, and the mandate of the EDB is “to create a sustainable GDP growth for Singapore with good jobs and business opportunities for its people⁶”.

A multi-faceted approach is used to identify the skills that are required for supporting sector development. Econometric forecasting is undertaken by the Manpower Research and Statistics Division in order to identify the country’s manpower needs for the medium (3 to 5 years) and the long term (5 to 10 years). These forecasts are supported by qualitative information from the different sector committees at the EDB. However, decisions about which sectors to investigate are guided by the EDB. Adopting a multi-faceted approach enables the Ministry of Manpower (MoM) to produce a skills map outlining which skills are in demand and the degree to which the country is producing the appropriate supply of skills.

At the higher education level, the universities are required to provide information about the employment and wages of their students once they have graduated. This influences a student’s choice of university and provides another mechanism for improving the responsiveness of study at the higher education level.

The importance attached to matching supply and demand is seen in the fact that every six months a cross-ministerial committee meets to identify the degree to which the country’s skills needs are being met. Representation on this committee includes the permanent secretaries from the Ministries of Manpower and Education.⁷

How is information about skills requirements translated into the supply of skills? This involves the EDB and the Singapore Work Development Agency (WDA) and consists of the following strategies: an expansion of pre-employment training, upgrading the skills of the existing workforce, and attracting foreign manpower from overseas. Under this process the MoM will initially assess whether an identified skill shortage can be met through pre-employment training. This involves working with the EDB and the

⁶ See: www.edb.gov.sg/edb/sg/en_uk/index/industry_sectors/alternative_energy/industry_background.html

⁷ See: www.mom.gov.sg/publish/momportal/en/communities/others/mrsd/Publications.html. These web pages also contain a lot of information about the state of the labour market in Singapore.

Ministry of Education to identify what subject areas need to be increased, by how much and at what level. In addition students are made aware of the potential employment opportunities of different programmes, with each university having to provide information about the employment outcomes and wages of their graduates.

The government has introduced a number of incentives to encourage workers to upgrade their skills, including a number of incentives to encourage further learning. A series of grants are offered to people who have completed their post-secondary level education, including a payment of SGD 800 to enable graduates to study for a qualification that has a market demand. A similar grant is provided for polytechnic students to enable them to study for a graduate level qualification. The MoM will also provide 80% of the funds if an education programme leads to a qualification that is in high demand.

The Work Force Development Agency plays an equally important role in upgrading the skill levels of the workforce through the following three programmes⁸:

- Skills conversion programme.
- Skills upgrading.
- Enhanced employability of lower skilled.

The skills conversion programme is primarily targeted at workers who have been displaced due to economic restructuring. The programme provides a person with basic skills training in an area that has a high market demand. The rationale for this programme is to shift people from sunset to sunrise industries. During this programme a person is provided with career counselling and appropriate training to develop employability skills. This will help older workers make the shift from the manufacturing to the service sector.

The skill-upgrading programme is targeted at older people who already have jobs. The purpose of this programme is to help improve productivity within targeted sectors. During their study programme a person is able to gain a qualification awarded by the Singapore Workforce Skills Qualification System. Under this system a trainee is provided with the opportunity to gain occupational specific skills (skills required to perform a particular job), industry skills (broad industry skills and knowledge to help understand the work in the industry) and employability skills (generic and portable skills applicable to all industries).

The third strategy is targeted at enhancing the competencies of the lower skilled worker through a programme called Work Redesign. Under this program the WDA attempts to redesign jobs in targeted sectors so that the person becomes more productive. This may involve removing the demarcation between jobs, enabling a person to take on new tasks and responsibilities. Under this process the skills required to perform a job increases, the person becomes more productive and they are paid a higher wage.

If the MoM or the WDA is unable to develop the skills of local people in response to identified needs then the final option is to search for skilled foreign workers. A number of strategies have been identified for increasing the supply of skilled workers, but these mainly focus on the provision of work permits and conditions attached to the permit. There is a three-tier structure for awarding work permits. Each of the tiers has a different application requirement, regarding skill level and results for the applicant under different employment conditions. These different conditions also have implications for the employer. At the first tier, the applicant has competencies that are viewed as adding critical value to the country's

⁸ More detailed information about these programmes can be found on the following web pages <http://app2.wda.gov.sg/web/Common/homepage.asp>.

economy. If the person's application is approved they will be granted a Personal Employment Pass for 6 months. This means that the person is entitled to be a resident in Singapore for 6 months in order to find employment. An employer who recruits such a skilled person will not have to pay a levy. At the second tier a successful applicant is awarded an S Pass. The entry requirements are less stringent and are geared to facilitate the entry of foreign workers at mid-technician level. However, the conditions for the employees are not as good and they can only receive a maximum salary of 2 500 a month. The employer is also required to pay the levy of around 150 per month. Under the third tier, the conditions for skills requirement are even less stringent and designed to regulate the flow of semi- and unskilled workers into certain industries. The terms and conditions are much more stringent for the employer and they have to pay a levy of around 450 per month. This system has been designed to respond to skills shortages and also prevent the displacement of local workers by foreign ones.

A national initiative of interest analyzed by a recent OECD LEED study (OECD 2006) is the Singapore Workforce Development Agency (WDA) summarised in Box 9 below. The WDA aimed to "improve the employability of the labour force and help workers adjust to an economy shifting from traditional manufacturing to knowledge-based services. The Skills Development Fund, which is supported by collections from a skills-development levy on employers, has provided financial incentives for training on a cost-sharing principle. Both sides benefit: workers acquire new skills and, according to impact surveys, a majority of employers have seen improvements in employee retention and productivity, customer satisfaction, quality of products and services, and sale and profitability from their investment in workforce training. However, research also indicates that the benefits of the training programmes have not been equally distributed among the workforce. Well-educated workers with higher earnings are more likely to participate in training than lower-paid and less-educated workers. Further, age has a negative impact on participation, suggesting that older workers are less likely to take advantage of training opportunities than young workers. Therefore, there is still a need to involve the more vulnerable members of the workforce in the training opportunities" (ILO, 2008, pp. 64).

Box 9. The Singaporean Workforce Development Agency (WDA)

Since the late 1990s, several governments have taken steps to create new agencies specifically entrusted with the task of improving the skills of the workforce. One of the most impressive examples to date comes from Singapore.

The Singaporean Workforce Development Agency (WDA), established in September 2003, acts as a "catalyst and champion of workforce development". It adopts a twofold strategy: an immediate-term and a medium-term focus. The first mainly takes the form of job matching, while the second consists in spurring adoption of a comprehensive continuing education and training system to raise the competency of every worker in Singapore. The agency works with partners (training providers and economic agencies) to try and establish industry-focused CET development initiatives. Its aim is to improve the standards of adult education and training. It directs research in adult learning, guides curriculum development and has started to develop a national skills and competency framework (National Skills Recognition System) that includes an accreditation scheme to enhance the capability of trainers. Among a large range of schemes for both employers and employees, the WDA launched a three-year programme in November 2003 specifically directed at SMEs. Through SME Upgrading for PERformance (SUPER), the WDA is devoting some USD 40 million to support over 300 000 training places. SMEs can benefit from higher course fee funding of USD 5 per traineehour instead of USD 2.50 for broad-based training programmes. Additionally, SUPER boasts the use of brokers known "Training Champions". These are industry associations that undertake projects aimed at promoting workforce training among SMEs, and which receive 90% funding per project, capped at a total funding of USD 300 000 per Training Champion per year.

Source: OECD 2006.

One of the dilemmas facing Singapore is the total reliance on global markets. This has two important implications. The first concerns the rapid pace of restructuring and the need to continually upgrade skills in

response to global competition. The Work Force Development Board recognises this need, but also acknowledges that training alone cannot solve the issue of competition and that more emphasis must be given to work redesign and other HR practices. The second concern is that Singapore is one of the first countries in the region to suffer when there is a global economic slowdown or financial crisis. In response, the government of Singapore has used the present financial crisis as an opportunity to upgrade the skills of workers through the provision of SGD 600 million for technical and generic skills. In addition, it has expanded the provision of grants for continuing education and provided workers with the opportunity to study for diploma and post-graduate qualifications. Time will tell whether Singapore has prepared itself to take advantage of an economic boom when it next occurs.

Malaysia: the workplace as a skills development field⁹

During the 1970s youth unemployment was identified as one of the possible causes for social disturbance. In response the government identified the need to improve employment opportunities for youth in the rural areas using the Youth Land Settlement Programme. During the 1980s more opportunities opened up for the growing number of young people coming onto the labour market following the country's rapid advances in development and the transition from an agricultural to a manufacturing and services economy.

Much of the recent direction for the country's development has been guided by the government's 2020 Vision in which the country aims to become an industrialized nation by the year 2020. One of the prime vehicles for achieving this is with the country's human resources. In this respect the government has raised literacy levels to 100%, supported the expansion of enrolment levels in all phases of the education system and encouraged skills development in the workplace.

For instance, under the existing Ninth Malaysian Development Plan there are targets to increase enrolment levels in tertiary education to 40% by the year 2010 (Government of Malaysia (2008) The Malaysian government does not want to compete with neighbouring countries and follows a low wage, low skill route to development. Instead, they want to support a value-added approach to production by the development of a highly educated and skilled workforce.

The unemployment levels in Malaysia have been relatively low compared to some of the neighbouring countries. The national unemployment rate stood at 3.3% on 30 April, 2008, but like most countries in the region youth unemployment continues to grow, with levels researching around 25% for those in the 15 to 24 year old age range.

The government intends to tackle youth unemployment and raise skill levels using a number of policy options. First, and perhaps most importantly, the government will continue to develop employability skills, especially in relation to investments in high quality technical and vocational skills. The significance of the former skills relates to their important role in attracting foreign investment, enabling the country to continue moving up the value chain. In addressing this need there has been a shift towards employers taking a greater responsibility for training via a levy system and for individuals to take a greater responsibility for their own continuing and professional development. As a consequence this has resulted in Malaysia adopting a much more market orientated and stakeholder driven approach to skills development.

⁹ The case studies of Malaysia and China were derived from an ongoing international comparative study on policy frameworks for supporting youth employment. This is being supported by the Job Opportunities for Youth Project, a joint initiative fund by the ILO and the government of the Netherlands. The principal researcher for these cases studies was Dr Johnny Sung.

Second, the government is attempting to raise skills levels for all groups, especially with regard to improving employment opportunities and outcomes for the Bumiputera (ethnic Malay and other indigenous) population.

Third, the government is committed to developing entrepreneurs and entrepreneurial values, all of which are seen as vital elements of Malaysia's future economic development.

In terms of youth policy, much of the government emphasis is on racial harmony, health and well-being. This largely reflects the national concern with integration of the different ethnic groups living in Malaysia, historical unrest around such issues and concern about the impact of generational change and technological innovation.

There are a number of different organisational structures for supporting skills development and employment in Malaysia. First, the Ministry of Education provides formal education for youth in primary, secondary and tertiary level programmes, including VET provision. Second, the Ministry of Human Resources, third the Ministry of Entrepreneur Development and fourth the Ministry of Youth and Sport along with a range of public and private organisations, deliver skills training for youth, the unemployed and those in work. It should also be noted that the Occupational Skills Standard Act was introduced in 1993, followed by the National Skills Development Act in 2006. As a result of this legislation there are now over 1000 public accredited private and public training centers in the country (Leong, 2007),

Under the Ministry of Human Resources, there are 14 industrial training institutes that provide pre-employment training, focusing on up-skilling existing employees, especially for those working in the manufacturing and construction sectors. There are a number of long term programmes of study where graduates can obtain a level 1 or level 2 Malaysian skill certificate. Advanced level qualifications can be obtained at one of the four Advanced Technology Centres. The effectiveness of these programmes can be judged by the fact that 80% of graduates obtain employment within 6 months of completing their programmes. Higher level technical training is provided at the National Polytechnics and Community Colleges. Under the country's ninth plan the government has called for an expansion of the higher level programmes in order to meet the growing demand from the engineering, commercial and service sectors. Moreover, it is important to note that all programmes map onto the country's National Qualification Framework:

Table 20. The Malaysian National Qualification Framework

SKM 1 – Level 1 (Basic certificate/ semiskilled)
SKM 2 – Level 2 (Intermediate certificate/ skilled)
SKM 3 – Level 3 (Advanced certificate/ advanced skill level)
SKM 4 – Level 4 (Diploma/ supervisor level)
SKM 5 – Level 5 (Advanced Diploma/ manager level)
Level 6 – Bachelors Degree
Level 7 – Masters Degree
Level 8 – Doctoral Degree

The key to encouraging employer involvement in training is the Ministry of Human Resources Development Fund (HRF). This was set up in 1992 and employers are required to pay a levy of 0.5 % to 1% of their monthly payroll into this fund. When they have paid into the fund for six months the employer can claim a reimbursement or a training grant. In theory employers can claim up to 60% (Fleming and Søbørg, 2002). This raises some questions about the administrative efficiency of the scheme, but an independent evaluation shows that it has resulted in a fair increase in training. However, it should be noted that there was a tendency for claims to be made by companies already engaged in training.

Another important vehicle for skills development is the country's apprenticeship system. This operates under the Ministry of Human Resources and was originally established in the 1950s, but was neglected and the number of participants dropped to around 70 by the 1990s. As a consequence of several years of research and discussions with stakeholders, a new National Dual Training System was established in 2004. This is based on the German system with around 70% of the training provided on-the-job and 30% off-the-job in a training institution. Normally, trainees are aged 17 to 25 and they sign a contract with a company. After two years the successful apprentices are awarded a K-Worker Certificate at level 3 of the NQF. The longer term aim is to produce 31 500 training places by 2010 to meet industries varied skill needs. The Malaysian system shows a clear commitment to moving up the value chain and raising the skill level of those already in employment, yet at the same time it is also providing equality of opportunity for all.

Besides upgrading skills of those in the workplace, the Ministry of Entrepreneur Development supports the development of entrepreneurial skills especially amongst the Bumiputera and the rural population who have traditionally not been involved in entrepreneurial activities. As well as building entrepreneurial skills into the general existing system, the Ministry of Entrepreneur Development provides entrepreneurial skills to this target group through 140 Institute of Technology 'MARA' activity centres and 11 MARA skill institutes. Traditionally, the Bumiputera have not been involved in entrepreneurial activities and these activity centres provide this group with the opportunity to attend a programme of study lasting six to twelve months and to obtain a recognised qualification.

The Ministry of Entrepreneur Development also plays an important role providing basic skills and entrepreneurial training to young people who have failed the school system. Every year an estimated 30 000 young people are failed by the school system. Under the ninth Malaysian plan the GIATMARA training centres will provide basic skills training for 80% of the target group who have dropped out of the school system. The training programmes last between 6 and 12 months, covering entrepreneurship training, with incubator support, all of which is provided to participants free of charge. At present there are no evaluations of the performance of this programme (Ngu, 2005).

The provision of entrepreneurial skills has also been used as a strategy for dealing with the growing number of unemployed graduates. In response to this perceived crisis the Ministry of Human Resources provided loans to graduates so they could obtain vocational skills and start-up new businesses. More recently in 2005, a further MYR 100 million was allocated by the same ministry to provide unemployed graduates with basic skills training in finance, entrepreneurship and business related activities. Despite the good intention of this scheme, it has been criticized for being an ad-hoc response to a crisis instead of ensuring that higher education institutions provide graduates with the skills that employers demand.

The third ministry to play a significant role in skills development is the Ministry of Youth and Sport. This ministry has responsibility for 7 National Youth Skill Institutes that cater to youth aged 18 to 25. Initially, much of the early focus of these institutions was on helping unemployed youth into work. However, since the mid 1990s emphasis has shifted towards providing skills training that meets the needs of employers and the country's 700 occupational standards. Part of the explanation for this shift is due to the large increase in demand for technical skills in the manufacturing and service sector. The following types of programmes are provided: youth skill training programmes, institutional training programmes (accredited full-time programmes offered within local training centres, leading to the Malaysian skill certificate) and non institutional training (short courses offered both in training centres and with other providers leading to a technician certificate)¹⁰. At present there are minimal evaluations of the system, but

¹⁰ GIATMARA (2008) Local to Global, Kuala Lumpur: GIATMARA Malaysia, www.capam.org/assets/mal004.pdf accessed November 2008.

its benefit is related to its ability to meet employers demand for specific technical skills, while public provision can help meet the demand for public skills.

The Malaysian model has a number of examples of best practice, but it also faces a number of significant challenges in the near future. On the positive side much of the emphasis on government policy has been pro-active and skills are used as vehicle to help the economy move up the value chain, ensuring that it adopts a high skilled route to development. Within public policy for skills the emphasis appears to be shifting towards a market based and stakeholder driven system. This should help ensure resources are used in a more cost effective manner and ensure that provision is more responsive to stakeholders need. At the same-time government has not forgotten the social dimension and continues to provide opportunities for those who have dropped out of the system or who are unable to find work.

However, the challenge facing the Malaysian model is the need to ensure that all skill programmes continue to meet the changing demands of the labour market. At present some of the programmes for the unemployed and youth are responding to a perceived crisis and it is debatable, in some instances, whether they are getting skills that have a market demand.

*Indonesia: a decentralization approach to skills development*¹¹

Indonesia is Southeast Asia's largest country with an estimated population of 228 million people, out of which around 154 million are between the ages of 15 and 64. The country has experienced competitive growth rates over the past four to five years, with levels averaging around 5.6%. Nevertheless, this has not been sufficient to absorb the growing numbers coming into the labour market. Total unemployment grew from 9.86% in 2004 to 10.28% in 2006, but more recently has fallen to 8.39%. However, what is more worrying is the fact that unemployment rates are around 30.6% for young people and a further 32% are under-employed.

Besides rising levels of youth unemployment, the government has to tackle the complexities associated with the decentralisation and handing down of power to the provincial and district level governments. The move towards democratic governance at the provincial and district levels is to be welcomed, but it also creates new challenges since many of the provincial and district governments lack practical experience of managing employment reform programmes and in some instances do not have the necessary resources to support effective implementation.

The Indonesian labour market is also presenting the government with a number of different problems, most of which relate to pieces of legislation introduced under the former regime and which are now in need of reform. A case in point is the 2003 Labour Act, particularly the aspects relating to dismissal procedure and severance payments. Initially the spirit of the law was to protect and improve the quality of workers life. However, in practice, instead of benefiting workers, the law inhibited long term employment since employers prefer to recruit contract workers in order to remain competitive. This piece of legislation also discourages employers from investing in skills since workers will not remain in their position for a long period of time.

The minimum wage also had negative labour market outcomes. Initially, this measure was introduced to raise the income of those on very low wages, but recent empirical evidence shows that due to the decentralization of decision making, minimum wage levels in certain provinces have risen by over 20%.

¹¹ The case study on Indonesia was undertaken by Marcus Powell who is the Chief Technical Adviser to the ILO, based in the Jakarta office. Much of the evidence is drawn from his own practical experience of working in the country. This was supplemented by discussions with stakeholders and government officials about the current employment and skill issues facing Indonesia.

Understandably, the government is concerned about this issue, especially in the light of the recent financial crisis. This has led the government to take decisive action, with the Ministry of Manpower and Transmigration, jointly with the Ministry of Domestic Affairs, Minister of Industry and the Minister for Trade, attempting to reduce wage inflation through the introduction of a joint decree in October 2008 to peg rises in regional minimum wage levels, to growth rates in regional level GDP. This was subsequently amended in November 2008 and provincial and district governments were recommended to link decisions relating to minimum wage levels to rates of inflation.

The World Bank says that Indonesia might have some of the most restrictive labour market regulations in the region. A look at some of the entitlements suggests there may be some truth to this statement, such as the fact that workers are entitled to long leave after six years of employment and can benefit from sick pay for up to a year. However, it is also important to remember that much of this legislation was formulated during the previous regime and attempts are being made to reform these regulations in the light of changing demands in the labour market.

With regard to skills development there are three different types of provider. The largest provider of vocational education is the upper secondary schools that operate under the Ministry of National Education. Within this system academic provision is delivered through institutions called SMAs (Sekolah Menengah Atas) and vocational programmes of study are delivered through SMKs (Sekolah Menengah Kejuruan). The vocational programmes last for three years and are targeted at young people between the ages of 16 and 18, and their prime purpose is to prepare graduates for the world of work. The vast majority of the SMKs deal with programmes of study in commercial subjects and economics, or metal work, automotive or building related training. A smaller number of the SMKs provide skill programmes in the following areas: hospitality, textiles, crafts and the arts. When the upper secondary schools were originally established an estimated 70% were academic and the remaining 30% vocational. However, now in the light of the growing youth unemployment there have been numerous discussions in government about the need to alter this balance in order to better prepare young people for the labour market. Nevertheless, any evidence must take into account the experience of other countries which have gone down this vocational route, the majority of which have failed to develop quality skills and watered down the quality of their academic education.

At the end of their skills training, SMKs students can sit a competency based test and successful ones are awarded a certificate. The body responsible for the assessment and certification processes is the BNSP – the National Body for Professional Certification. The BNSP has put together a large body of occupational standards (SKKNI) based on industry wide agreed competencies for a whole range of occupations. However, the problem with the existing system relates more to implementation than the development of the standards. This occurs due to the simple fact that training providers are not allowed to undertake their own assessment or issue BNSP certificates. Only external assessors from BNSP are allowed to supervise the assessment process and the certificate has to be issued by the BNSP. Understandably, this makes the whole process very expensive and many institutions are reluctant to hire the external assessor due to the fact that they cannot recover the cost from the young person taking the test. Once again this system is in the process of being reviewed and the government is looking at how to make the system more flexible and responsive.

The second provider of skills, the Public technical training centres (BLKs), operates under the country's Ministry of Manpower and Transmigration. There are around 160 BLKs scattered throughout Indonesia. They target young people who have been failed by the education system or who are unable to get a job. The trainees receive basic skills training lasting around 140 hours in the following subject areas: automechanics, IT, machinework, secretarial skills, bookkeeping, sewing and dressing making, and building and construction. Unfortunately, the BLKs are experiencing severe capacity problems due to their lack of equipment (most of which is poorly maintained), the lack of industrial experience amongst existing

instructors and a general lack of up-to-date pedagogy materials. Part of this capacity problem relates to the cut in budgets for the BLKs following the previous financial crisis and the failure to reinstate them to previous levels. The situation is compounded by the existing curricula which was designed and distributed by central government. Under this situation the curriculum has only been designed for a small range of topics, many of which do not reflect the skills needs of local employers at the decentralised level. Furthermore, the majority of BLKs do not provide competency based training and issue their own certificates, most of which are not valued by employers since they are not based on any recognised assessment or certification process.

The final type of skills providers in Indonesia are the private ones. The Ministry of Manpower and Transmigration supports the development of workplace learning in the private sector through an apprenticeship programme. Decree No.21/2005, stipulates the standards and procedure for this programme, covering the rights and responsibilities of companies and individuals participating in this initiative. However, much of the training, assessment and certification are the responsibility of the company, with the government just monitoring to ensure that the decree is applied. As in most countries there are a large number of private training companies, but little is known about the quality or the quantity of training they provide. However, anecdotal evidence suggests that private providers tend to focus on those skills programmes offering the highest return, namely where the costs are lowest to deliver and the market demand is high. In some instances this may be good, but it neglects longer term strategic decision about investment in high cost skills, such as those associated with technology or engineering.

The Government of Indonesia recognises the constraints facing their labour market and the need to improve the quality of existing training programmes. The government's vision for reforms in this area is outlined in a number of Medium-Term Development Plans (*Renstra*), a series of documents produced by each government ministry in Indonesia to outline their board policy direction for the next five years. For instance, within the Ministry of Manpower and Transmigration the *Renstra* has the ambitious objective of reducing unemployment to around 5.1% by the end of 2009. Two strategies are being used to achieve this target. The first centres on the need to make the labour market more flexible and conducive to businesses, thereby increasing the number of job openings. Amongst the activities being supported are: improvements to the way in which employment centres operate, ensuring that a match is achieved between vacancies advertised by employers and job searches of those looking for work. The ministry is also in the process of reviewing existing regulations and employment conditions, including those relating to worker protection and minimum wage levels. This process is on-going and some of the reforms were outlined in previous paragraphs.

The Ministry of Manpower and Transmigration's second strategy focuses on improving the quality and productivity of the country's workforce. Much of the emphasis is being given to improving the skill levels, expertise and competency, as well as productivity of existing workers. The ministry is attempting to achieve this through a three in one initiative under which they are attempting to strengthen training providers, along with improvements to the processes of certification and job-placement.

With regards to the Ministry of National Education (MONE), the *Renstra* focuses on the following areas: i) improving access to education by providing information about further education and employment opportunities; ii) improving the quality of training and education by strengthening public and private skill training providers and competency based education; and iii) improving the governance of the education system by supporting accreditation of training providers, enhancing capacity of providers, and also the quality of private non-formal education providers. The Ministries of National Education wants to move towards a market based system, to support the revitalisation of existing VET providers, and to support job creation through the stimulation of youth entrepreneurship. This is evident amongst the Directorate General for Non-formal and Informal Education (DG NFIE) which proposes to "increase employment opportunities for out of school youths by improving incentives for training providers to deliver relevant

and high quality training, increasing the capacity of NFIE institutions and by enhancing the opportunities for youth entrepreneurship and self-employment”.

Within Indonesia many of the reforms surrounding employment and skills are in a state of flux, particularly given that Ministries are in the process of preparing their *Renstra* for the next five years (2010 to 2014) and the fact that an election will be held later this year. Nevertheless, it is important to emphasise the significance of the decentralisation process and that the success of any reform will depend on the support and commitment of the provincial and district level governments, and stakeholders on the ground. At present there are many examples of best practices using decentralised approaches. For instance, the CEVEST Training Centre delivers quality skill programmes leading to certificates awarded by the BNSP. The standards of delivery are kept to a high level, including the regular training of instructors and upgrading of equipment to meet changes in technology and industrial demand. They have strong links with industry and are regularly approached to provide specific skill programmes in a number of areas. As a consequence the training centre now operates as a profit centre. This could provide lessons on ways forward for a number of other training centres. There are a lot of other examples of successful initiatives at the decentralised level. For instance, in the town of Surabaya, the East Java Provincial Office of Manpower (Disnaker) has successfully established a modern employment service (ES) centre, with extensive on-line services¹², a number of counselling offices and a resource centre for job seekers. Moreover, the ES centre has started to reach out to employers in a pro-active manner and recently, in November 2008, had their first job fair in which over 2000 jobs were on offer for young job seekers.

China: labour market on the path to market reform

In China the employment system has experienced a severe shock as the country moves from a centralized planned to a decentralized market driven system. Under the previous central planning, employment was placed under a nationwide planning system in which local government provided workers with education, training, employment and retirement benefits around localised work units. However, the market reforms in the 1980s and 1990s have largely removed these work units, resulting in severe jobs losses. The government anticipated that the people who have been displaced from the work units or collapsed state-owned enterprises will eventually find employment in the growing private sector. This adjustment may happen over time, but there are some serious obstacles in the country's labour market. Perhaps, the most significant is the fact that job losses may not occur in the same geographical place to where the new jobs are being created. Similarly, those people may not have the type of skills that are appropriate or in demand in the new industries. To make the situation worse the majority of displaced workers are likely to be those who are least education and unskilled.

At present there are no comprehensive or accurate statistics on the numbers unemployed or the proportion who are under 24 years of age. According to the official statistics out of the country's 1.3 billion people around 23.5% are aged between 15 and 29¹³. Official unemployment rates have been around 2% to 5%, but these only cover urban areas where the residents can register as being unemployed. These figures don't include those living in rural areas or those migrating to cities in search of work. However, a number of studies suggest that the levels might be higher, especially amongst young people. According to estimates from an ILO study unemployment rates for young people are around 9%. Other anecdotic

¹² www.infokerja-jatim.com

¹³ Youth Employment Network Office (China), MLOSS and the ILO (2005) China Youth Employment Report: Analysis Report of China's Survey on School to Work Transition, www.ilo.org/public/english/region/asro/beijing/download/training/schul2work.pdf.

evidence suggests that around 50% of those registered as unemployed are young people¹⁴. Whatever the true picture it is clear that China is also facing a rising youth unemployment problem.

The government of China faces a number of unique problems. On the one hand it has to ensure that young people leaving the education system have the appropriate skills to find employment in growth sectors. On the other hand it has to manage the whole restructuring process and provide displaced workers with the appropriate training so that they can successfully move out of sunset industries and into the sunrise industries. Additional skill issues facing the government include: the need to make existing workers more productive. Against this background the government is using its compressive VET system, a series of labour market measures and skills programmes to manage the labour market transition.

In China there is still an extensive system of vocational institutions and different types of skills programmes supported by the government. Central to the different models of provision is the country's vocational qualification and skill assessment system. There are the following five levels: junior, intermediate, senior, technician and senior technician grades. However, out of 70 million skilled workers in China, 96 % are in the junior and intermediate grades.

When it comes to training institutions the major providers consist of technical schools, vocational schools and technical secondary schools, all of which are supported by Employment Training Centers. These institutions are formal in every region and municipal city in China, providing various types of social training for the unemployed, many of whom are either retrained or new entrants to the labour force. There are estimated to be around 17 000 such institutions across China.

Besides the training institutions, China has an extensive range of training programmes for pre-employment, on-the-job and support for those between jobs (i.e. retraining). Much of the on-the-job training is left to employers and the different types of pre-employment training/retraining are shown below:

Table 21. Pre Employment Training and Re-training in China

Schemes	Training Provider	Funding Source	Length	Employment Relevance
Training for the unemployed (labour preparation programme)	Training institution (e.g college)	Trainees	1 to 3 years depending of level of qualification	General
Apprenticeship	Employer	Employer/Employee	Varies from job to job	High relevance
Internship	Employer	Government	3 to 12 months	High relevance
Re-training	Various kinds of social, educational and work units	Government Employer Trainee	Varies between jobs	General vocational skill

Source : Adopted from Youth Employment Network office et al. (2005).

The government's active labour market strategies recognise the need to move people into growth sectors and the importance of employability skills, including entrepreneurship and skills upgrading. A number of initiatives are being implemented to encourage the development of employability skills, including sending 3000 workers to schools across China to provide demand-related skill training to around 2.2 million workers.

¹⁴ ILO (2004), "Country Report About China's Youth Employment", Symposium on Globalization and the Future of Youth in Asia, 2-3 December 2004, Tokyo, Japan.

Young people who are unable to obtain employment in the formal sector are given entrepreneurship training to establish their own business, including the provision of career guidance and access to credit facilities. One of these includes the entrepreneurship training provided by the MOLSS (Ministry of Labour and Social Security). Initially this scheme was set-up in three cities –Beijing, Shanghai and Suzhou) but it proved so popular that another 30 cities adopted the idea. Under this scheme unemployed graduates and redundant workers attended a new business start-up scheme. Out of the 30 000 participants, an estimated 60% manage to start-up a business and also generate around 74 000 new jobs (*MOLSS 2002*).

The government has also implemented a programme called Preparation Training for Youth. This provides young people with the opportunity to participate in an internship programme and gain industrial experience and an understanding of how businesses operate. This scheme is very flexible and enables young people to study vocational subjects on a part-time or full-time basis, as well as through distance learning. In addition it can also enhance their qualifications through an accumulative process.

The government is keen to tackle youth unemployment and has introduced a state-wide tax exemption for enterprises employing youth. Under this incentive if 60% of an enterprise's employees are recruited from local unemployed youth they are exempt from taxes for three years.

A number of university graduates face difficulties entering the labour market due to their lack of practical experience and vocational skills. In response to this problem the government introduced a programme called "Enhancing Work Preparation through Voluntary Work". This provides graduates with practical experience in the following sectors: health, education and agriculture, enabling them to develop leadership and team building skills. At the same time they are offered the opportunity to retrain and gain a vocational qualification at one of the senior vocational colleges.

Another important measure has been the country's retraining scheme for displaced workers, with around 10 million workers passing through the programme between 1998 and 2000, out of which, according to the MOLSS, 65 % obtained employment.

There is limited documentation about the Chinese system or evaluations, but the available evidence shows that the government is aware of the significant employment problem facing the country and has introduced a wide range of active labour market indicators to help manage the restructuring of the labour market from a planned to a market economy. Hopefully, it will only be a matter of time before an adjustment is achieved and the skills of those coming into the labour market, match those being demanded in the sunrise industries. However, the equally important challenge facing the government will be how to create enough jobs for the 1.4 million workers who are coming into the labour market each year.

Hong Kong Special Administrative Region: using the formal education system as a tool for structural change

Like Singapore, Hong Kong has achieved high growth rates using an export-led growth strategy. Hong Kong covers a small geographical area and economic success has partly been based on developing the skills and competencies of its people. However, there are significant differences between the economies of Singapore and Hong-Kong. In Singapore, the government determines which sectors will grow by providing the appropriate incentives and conditions to ensure that investment occurs. In contrast, the administration in Hong Kong plans for the market and attempts to identify which sectors are most likely to experience growth. This forms the basis for economic planning and skills formation in Hong Kong

Perhaps the most significant organisation influencing skill formation is the Education and Manpower Bureau. The mandate of this Bureau is to (a) provide a well trained workforce equipped to meet the

demands of a dynamic economy and (b) contribute to the overall economic competitiveness of Hong Kong. The bureau is responsible for manpower projections and for identifying the future demand for skills.

The largest provider of skills in Hong Kong is the Vocational Training Council (VTC). The VTC is a tripartite body representing the interests of employers, employees and academics¹⁵. A total of 22 people sit on this board and together they determine overall policy and strategy for the sector. This body is responsible for technical education and vocational training on 11 campuses, covering the following subject areas:

- Applied Science.
- Business Administration.
- Childcare Education.
- Information Technology.
- Construction.
- Electrical and Electronic Engineering.
- Hotel Services and Tourism Studies.
- Mechanical Manufacturing and Industrial Engineering.
- Design, Printing, Textiles and Clothing.

The focus is on pre-employment training and programmes of study lead to a diploma or higher diploma level qualification. The emphasis is on developing practical competencies, with 70% of the time spent on practical activities and the remainder 30% on theory. An estimated 160 000 young people graduate from the VTC each year. In the past emphasis has been given to pre-employment training, but in response to the changing demographic trends, courses are being developed for older people in employment.

Under the VTC are 21 Vocational Training Boards (VTB) covering all sectors of the economy, the composition of which are tripartite. These boards meet every six months to review their sector and to provide feed-back to the VTC on any important trends within their sector.

A number of other bodies report to the VTC including the Employee's Re-training Board (ERB), the Apprenticeship Unit, the Clothing Industry Training Authority (CITA) and the Construction Industry Training Authority (CITA). The ERB is a statutory body set-up in 1997 to enable displaced workers to re-enter the labour market, particularly domestic workers and security guards. The unemployed person receives training and three months' work experience and the employer receives a subsidy. Around 1 000 000 retraining places have been offered since inception.

The CITA and the CLITA are also statutory bodies. They were established in 1975 to provide young people with training. Funding for these two bodies is provided from a levy on companies operating in this sector. Recently, the CITA and CLITA have begun to offer in-service courses for older workers in response to the demographic changes. The CITA also carries out trade tests in sectors that have important health and safety considerations.

¹⁵ See: www.vtc.edu.hk/vtc/web/template/institute_desc_list.jsp?fldr_id=438

The country's Apprenticeship Scheme was launched in 1997 to provide on-the-job training for young people in 77 specified trades. Under this scheme employers have to enter into a contract and register with the Apprenticeship Board if they wish to employ a young person. The training lasts for four years. Unfortunately, demand for this type of training has fallen from around 10 000 in the 1980s, to around 3 000 in 2007. A number of factors can account for this decline, ranging from the length of service to the fact that these skills are no longer in demand.

The final scheme, the Skills Upgrading Scheme (SUS) was launched in 2001 to enhance the employability of low-skilled workers by providing them with industry specific skills. However, in order to claim a grant, the training has to occur in an expanding industry and one that employs a significant amount of local people. A total of 24 industries have been identified for skills upgrading. The purpose of this scheme is to enable low skilled workers to become more employable in sectors that are expanding.

The Education and Manpower Bureau, in combination with the VTC, are responsible for tracking skills that are in high demand. However, any study on the demand or supply of skills must focus on sectors that are strategic to the country's development. At present the following have been defined as strategic by the country's Economic Development and Labour Bureau:

- Financial Services.
- Trading and Logistics.
- Tourism.
- Professional Services.
- Creative Industries and IT.
- Information Services.

Within each of the above sectors the Education and Manpower Bureau identifies broad macro requirements for the medium term (3 to 5 years). The intention is to provide a general reference or signal to planners, but not specific details on the numbers or specific type of occupations. The methodology involves a two pronged approach, consisting of a number of quantitative projections and a series of qualitative studies. The quantitative projections identify demand for broad occupational groups in specific sectors and how they change over time. Attempts are made to match future supply by age, sex and educational level.

In addition this is supplemented by qualitative information and a series of establishment surveys, the majority of which are obtained from the 22 VTC. Each of these Councils undertakes a survey of skill requirements in their sector every two years. Additional studies are undertaken to provide qualitative information about changes in the sector, including how global trends, information technology and other factors are impacting on the sector. Where appropriate, the VTC will also establish a committee to look at cross-cutting issues that impact on each sector, such as disability or the role of ICT.

Under this two pronged approach the Education and Manpower Bureau provides the broad macro-economic framework for identifying broad skills areas over the medium term and the VTBs provide specific details about the short term skill needs within each sector.

How are these skill needs translated into the supply of skills? In Hong Kong the close relationship between the VTC and the VTBs ensures that labour market information is translated into the appropriate

action. For instance, each of the VTCs will supply the VTB with information about their sector. In response the VTC will review its annual plan and determine where supply needs to be increased, and, correspondingly, where it needs to be decreased. Attempts will also be made to influence student choice through career campaigns and career guidance.

The ways in which courses are funded also has an impact on student supply. For instance, where there is high economic demand for a particular programme of study and one that requires high capital investment, tuition fees will be paid by the state. However, in subject areas where demand is high, and there is no capital investment, such as accounting or business studies, the state will not pay tuition fees. This strategy ensures that state investment occurs in strategic skill areas that the private sector would not support.

The provision of work visas is also used as a mechanism for obtaining skills not available locally. Under this process a firm has to advertise locally, and if they are unable to recruit an appropriately skilled person, they will have to approach the immigration board for a work permit. In turn, the immigration board will approach the VTC to find out whether this skill is in short supply. If the application is approved the employer will be required to pay a levy. This levy will be subsequently used to support the upgrading of local skills through the employees retraining scheme.

There are two other bodies that respond to employment and skill needs, namely the university sector and the country's Employment Services. The university sector has no direct relationship with the VTC and reports directly to the Ministry. As a consequence the universities are responsible for making their own decisions about the labour market, with the result that the majority identify what are the most appropriate courses for the market place.

With regard to the Employment Services, they offer free recruitment services to employers and job seekers. There are a total of 12 job-based centres and each is linked by an interactive employment website. This website enables employers to register their vacancies and job seekers to register their CVs. In order to support this process of matching vacancies to employees, there is a telephone employment service centre and a processing centre. The employment service centre handles over 600 calls a day and the processing centre receives around half a million vacancies from employers each year.

The country's Employment Services also provide the following active employment measures for the unemployed: (a) an employment programme for the middle-aged; (b) a work trial scheme; and (c) a youth pre-employment training programme. The first of these, the employment programme for the middle-aged, provides employers with HKD 1 500 if they employ a job seeker who is aged 40 and above for 3 months. This provides a means by which an employer can screen potential workers. The work trial scheme is similar and lasts for around a month, providing the unemployed person with exposure to the workplace. The final scheme provides school leavers with work-based training for a period of 8 months. The employers receive an incentive of HKD 2 000 per month for employing a young trainee.

International and Cross border Co-operation

The challenges of skills development have attracted a wide range of co-operation agencies' policies and practices in the region. The key stakeholders include (see also Appendix 4 for a full list):

- APEC
- ASEAN
- ASEAN Foundation
- Asian Development Bank
- AusAID
- ILO
- World Bank
- USAid

Langstaff, Weyer and Carton (2007) identified three approaches by international co-operation agencies in skills development in Southeast Asia, these include:

1. The "development" approach of skills development

- Objective: a knowledge-based development.
- Target groups: officials, technical staff, youth.
- Skills development: capacity building in all fields and sectors, support to Technical, Vocational Education and Training (TVET) and higher education.

2. The "poverty reduction" approach of skills development

- Objective: poverty alleviation / fight against exclusion.
- Target groups: disadvantaged groups (e.g. rural communities, women, people with disabilities, ethnic minorities, unemployed youth).
- Skills development: life-skills based-education; capacity-building in social sectors (e.g. health); training of disadvantage groups in primary sectors (e.g. agriculture) and in entrepreneurship.

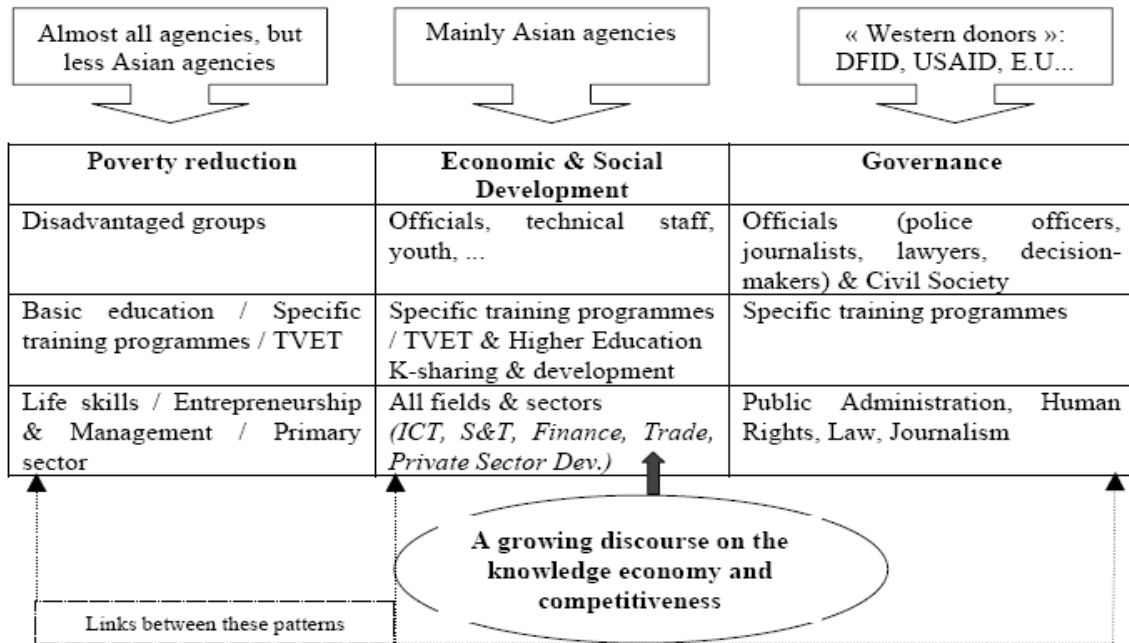
3. The "governance" approach to skills development

- Objective: good governance (e.g. efficient and democratic institutions, human rights, fight against corruption, peace and security).
- Target groups: decision-makers, administrative staff, civil society, journalists, jurists.

- Skills development: capacity-building.

As can be seen from Figure 21 the locality of the agency reflects the skills development approach undertaken.

Figure 21. The three approaches to skills development



Source : Langstaff, Weyer and Carton (2007).

The three approaches to skills development do not appear in isolation but often skills development programmes are a combination of the three approaches. There is also a consensus among international agencies on providing skills for the private sector development as a dual approach to increasing both competitiveness and poverty alleviation. International co-operation is also changing; some countries are both receivers and donors and this dual relationship calls for a better understanding of international co-operation and the need for better understanding of the governance approach to skills development (see Box 10 below).

Box 10. Key Issues for international co-operation

A tendency towards mixing patterns: Although some agencies stress one particular objective of skills development, almost all agencies make references to several objectives. Many agencies are combining these three approaches, although perhaps not always in the most effective way. Achieving a balance between skills for economic development, or knowledge-based development, and skills for poverty alleviation is essential if inequalities are to be reduced.

Consensus: overall, there is a consensus among co-operation agencies on the importance given to skills development for the private sector development, whether it serves growth and competitiveness and / or poverty alleviation.

Governance issues: Governance issues seem to be a growing trend but there is a need for a better analysis of how the governance approach of skills development differs from the classical approach of institutional building, as promoted for example by Asian agencies.

Conceptions of co-operation for skill development: the emergence of countries that are both recipients and donors (e.g. Thailand) challenges traditional conceptions and practices of aid. How could the regional co-operation ("win-win partnership") promoted by Asian agencies be developed elsewhere, particularly in the field of skills development? And what kind of balance can be expected between transfer of experience and support to the use of endogenous knowledge and skills?

Source: Langstaff, Weyer and Carton (2007)

Cross-border development opportunities continue to be promoted and pursued by Southeast Asian countries and governments are well aware of the benefits cross-border co-operation can bring to their countries. Key cross-border initiatives from ASEAN, AusAID, ADB, APEC and networks are discussed below.

ASEAN Initiatives

Among other categories ASEAN has a strong focus on Human Resource Development and Capacity Building incorporated into two categories:

1. Entrepreneurship Development Programme

- Regional training programme in SMEs entrepreneurship development.
- Regional pilot project in entrepreneurship development in ASEAN.
- Sub-regional pilot in entrepreneurship development in ASEAN-6.

2. Enhancing SMEs-Sector Skills in management and organisation on a self-reliant basis

- Regional programme in developing system packages on 31 areas of enterprise management and organisation skills requirements.
- Regional pilot project in system development in i) quality control and certification and ii) quality, cost and delivery improvements.
- Regional project in the simplification and standardisation of basic terminologies for SME training courses, business plan and business project preparation, system development etc.

- Regional programme for the promotion of internship schemes, worker and entrepreneur exchanges, and study visits for skills training and enhancement, and inter-firm linkages (www.aseansec.org).

The SMEs focus is justified because small and medium enterprises form the backbone of the economy in ASEAN countries. They are the largest source of domestic employment across all economic sectors in both rural and urban areas. For this reason ASEAN has prepared the ASEAN Policy Blueprint for SME Development (APBSD 2004-2014). The APBSD outlines the framework for SME development in the ASEAN region; it comprises strategic work programmes, policy measures and indicative outputs. The government acts as a facilitator, while SMEs themselves are the engine of growth. Collaborative SME development programmes within public-private partnership frameworks will ensure the continued economic growth in the region. These can be achieved through five structured and organised action plans and development programmes for SMEs as indicated in Box 11 below.

Box 11. ASEAN action plan for SME development

1. *Human resource development and capacity building*
 - *Entrepreneurship development programme.*
 - *Enhancing SME-sector skills in management and organisation on a self-reliant basis.*
 - *Fostering SME capabilities for inter-firm networking and linkages.*
 - *Tracking and benchmarking SME capabilities, dynamism and competitiveness.*
2. *Enhancing SME marketing capabilities*
 - *Setting up regional and sub-regional networks of interlinked, online clearing points or trading houses for SME business.*
 - *Enhancing SME capabilities in and reliance on ICT and e-commerce.*
 - *Tracking and benchmarking SME readiness as subcontractors and compliance to non-negotiable subcontracting preconditions or compliance requirements on the demand-side.*
3. *Access to financing*
 - *Capacity building for improved SME access to financing.*
 - *Financial institution capacity building for improved SME financing.*
 - *Widening and deepening SME access to credit.*
4. *Access to technology*
 - *SME technology upgrading and transfers of innovative technologies.*
5. *Creating a conducive policy environment*
 - *Simplification, streamlining and rationalisation of the procedures for SME registration, and the process for SME support services.*
 - *Fine-tune policy and regulatory framework for SME development.*
 - *Promotion of public-private synergies and partnership for SME development and integration.*

Source: ASEAN, 2004.

The ASEAN Foundation¹⁶ is an important initiative established on 15 December 1997 in Kuala Lumpur during the Association's 30th Anniversary Commemorative Summit. It aims to bring about shared prosperity and a sustainable future to all ASEAN countries. The Foundation supports projects from a fund derived from contributions of ASEAN governments, some foreign donor agencies as well as the private sector that share the goals and objectives of the Foundation. Funding from ASEAN governments currently totals USD 4.3 million. Funds remitted by Brunei Darussalam, Indonesia, Malaysia and Singapore has been earmarked for the Foundation's Endowment Fund, while those from the remaining countries have been allocated for operational expenses. A major source of funding contribution came from Japan (referred to as the Japan - ASEAN Solidarity Fund). Additional contributions have come from the governments of China, Korea, and France and IDRC of Canada, as well as Microsoft Corporation and Hewlett-Packard. Projects cut across four major areas:

- Social development (with special focus on children and youth, women, rural development, agriculture, disaster management, education, health and nutrition);
- science and technology;
- environment; and
- culture and information.

AusAID (Australian Government) Initiatives

AusAID has two important initiatives in the region; the ASEAN-Australia Development Co-operation Programme (AADCP) and the Asia Public Sector Linkages Programme (PSLP).

1. ASEAN-Australia Development Co-operation Programme (AADCP). The goal of the programme is to promote sustainable development within ASEAN, by assisting ASEAN to tackle priority regional development challenges through regional co-operation. The AADCP consists of three core elements, namely: (i) a programme to support ASEAN economic integration and competitiveness-related activities; (ii) a flexible mechanism for smaller collaborative activities (the Regional Partnerships Scheme); and (iii) an economic policy research facility in the ASEAN Secretariat (the Regional Economic Policy Support Facility). The AADCP Programme Stream, with a budget of AUD 20 million, consists of two sub-programmes, which in turn comprises a series of smaller joint ASEAN-Australian activities contributing to the broader programme objectives. These sub-programmes are called: "Strengthening ASEAN Economic Integration" and "Enhancing ASEAN Competitiveness" (AADCP, 2006).

2. The Asia Public Sector Linkages Programme (PSLP) which aims to improve public sector capacity for governance and management for nationally determined development outcomes in selected Asian partner countries. PSLP offers departments and agencies of Australian Federal, State and Territory Governments and Australian public universities the opportunity to compete for grant funding that will: transfer capacity building skills and expertise to their public sector counterpart institutions in partner countries, support strengthening of sustainable development focused public sector bilateral and regional linkages (Australian Government, 2007).

Asian Development Bank (ADB) Initiatives

ADB is dedicated to poverty reduction in Asia and the Pacific, a region that is home to two thirds of the world's poor. Established in 1966, with headquarters in Manila, ADB is owned and financed by its 67

¹⁶ www.aseanfoundation.org

member countries, of which 48 are from the region and 19 are from other parts of the globe. It contributes low interest loans, guarantees, grants, private sector investments, and knowledge and advice to help build infrastructure and improve essential services such as health and education to boost quality of life, particularly for the nearly 1.9 billion people in the region that still live on USD 2 or less a day.

ADB developed a Country Partnership Strategy (CPS) which includes an indicative rolling country business plan composed of individual technical assistance and loan projects and programmes for priority sectors and/or themes. ADB also supports and promotes several sub-regional innovative cross-border programmes, including:

- Greater Mekong Sub-region (GMS).
- The Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area;
- Indonesia-Malaysia- Thailand Growth Triangle (IMT-GT).

These three cross-country programmes are outlined below.

Greater Mekong Sub-region Programme

The Greater Mekong Sub-region comprises Cambodia, the People's Republic of China, Lao People's Democratic Republic, Myanmar, Thailand, and Viet Nam. In 1992, with ADB's assistance, the six countries entered into a programme of sub-regional economic co-operation, designed to enhance economic relations among the countries. The programme has contributed to the development of infrastructure to enable the development and sharing of the resource base, and promote the free flow of goods and people in the sub-region. It has also led to the international recognition of the sub-region as a growth area. Since 1992, ADB has been financing sub-regional projects in the GMS, in the form of loans and technical assistance grants. As of end of December 2007, the 34 GMS projects cost an estimated USD 9.9 billion of which ADB has:

- extended loans amounting to USD 3.4 billion;
- generated USD 3.5 billion in co-financing for these investment projects;
- mobilised a total of USD 166 million of grant resources, of which USD 76 million have been provided by ADB, to finance 146 technical assistance projects focusing on human resource development, tourism, environment, trade and investment.

The strategic framework of the GMS Programme is founded on a common vision, goals and strategic thrusts for regional co-operation. The GMS Programme will contribute to realising the potential of the sub-region through:

- an enabling policy environment and effective infrastructure linkages for enhanced economic co-operation;
- development of human resources; and
- respect for the environment and social interests to ensure sustainable and equitable development (Source: www.adb.org).

The Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA)¹⁷

The BIMP-EAGA Growth Area or initiative was launched by the four governments in 1994. The objective was to hasten, through regional co-operation, the development of the economy of Brunei and sub-regions of the three other countries. BIMP-EAGA is viewed as a major industrial location in ASEAN for high value-added agro-industry, natural resource based manufacturing, and high-grade tourism; as well as other non resource-based industries.

One of the projects is the BIMP-EAGA Database, intended to support trade and investment in the sub-region through facilitating access to information necessary for the private sector to identify and take advantage of business opportunities and for policy makers to identify and address issues affecting the investment climate. It currently contains more than 20 million trade and investment related statistics and documents spanning the 4 member countries. Its content and design reflect feedback from wide-ranging stakeholder consultations held in each country and the contributions of 12 national government agencies as well as numerous local government units.

Indonesia-Malaysia- Thailand Growth Triangle (IMT-GT)¹⁸

In 1993, Indonesia, Malaysia, and Thailand recognised the potential of the IMT-GT sub-region by launching the IMT-GT Programme of co-operation to accelerate the sub-region's economic transformation, through the following:

- exploiting complementarities and comparative advantages;
- enhancing competitiveness for investments and exports, promoting tourism;
- lowering transport and transaction costs; and
- reducing production and distribution costs through scale economies.

Many of the constraints and issues faced by the sub-region in its first 13 years remain. In addition, as the sub-region becomes more global in its stance and economic endeavors, it will have to face difficult challenges such as:

- how to take full advantage of increasing globalisation, and greater ASEAN and Asian economic integration;
- how to deal with the growing number of bilateral and regional trade deals, and competition posed by other countries such as PRC and India;
- how to accelerate implementation of liberalisation, simplification and harmonisation measures covering investments, trade in goods and services and mobility of labour;
- how to mobilise resources to finance infrastructure and logistical support; and
- how to sustain momentum of co-operation in the face of security concerns and threats of infectious diseases.

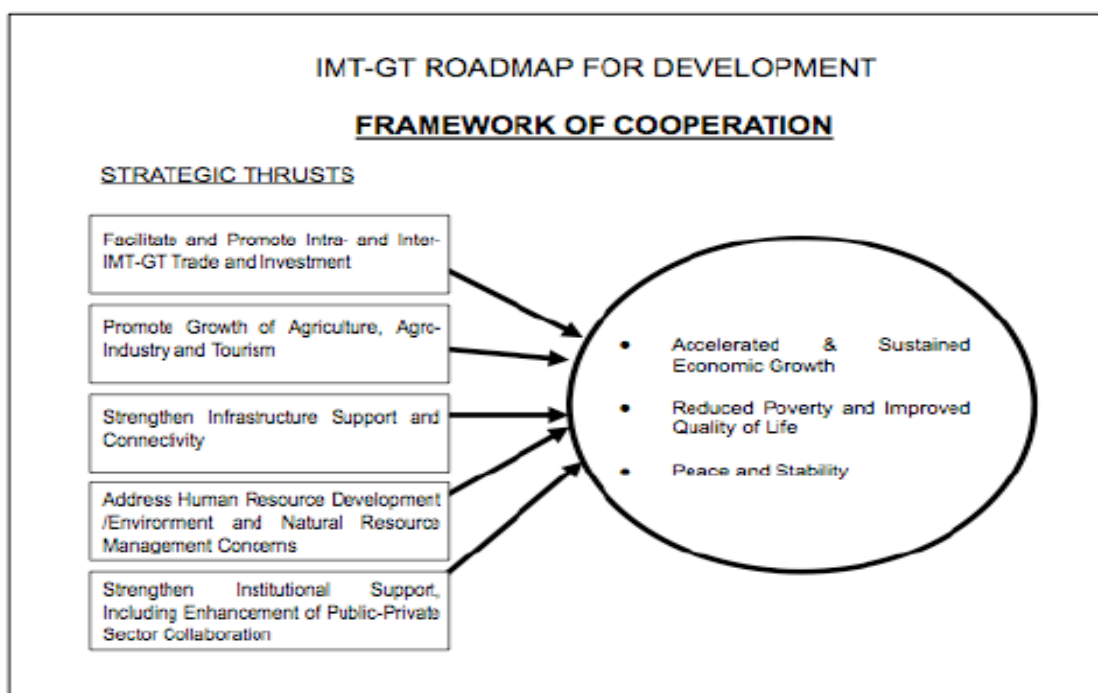
¹⁷ www.bimp-eaga.org/

¹⁸ www.adb.org/IMT-GT

To address these challenges the IMT-GT's roadmap for 2007-2011 focuses on (see Figure 22):

- facilitating and promoting intra- and inter-IMT-GT trade and investments;
- promoting the growth of agriculture and agro-industry and tourism;
- strengthening infrastructure linkages and supporting the integration of the IMT-GT sub-region;
- addressing cross-sectoral concerns such as HRD, labour and environment issues; and
- strengthening institutional arrangements and mechanisms for co-operation.

Figure 22. IMT-GT Roadmap - Framework of Co-operation



Source : IMT-GT Secretariat and Asian Development Bank, 2007.

To sharpen its focus, the Roadmap will build on two anchors:

- a policy and regulatory anchor, designed to provide an enabling environment conducive to private sector activities;
- an anchor built around major IMT-GT corridors that can serve as trunk lines from which development will radiate to neighboring areas through transport and economic linkages.

APEC Initiatives

Asia-Pacific Economic Co-operation (APEC) is a forum for facilitating economic growth,

co-operation, trade and investment in the Asia-Pacific region. APEC has 21 members - referred to as "Member Economies" - which account for approximately 41% of the world's population, approximately 55% of world GDP and about 49% of world trade (www.apec.org).

APEC-funded projects are a vital part of the APEC process, turning into action APEC Ministers' and APEC Economic Leaders' specific policy direction. Projects cover a range of beneficial activities for the region, from establishing channels for information exchange to assisting business with trade and investment, to providing information technology training in developing economies. A flagship is the APEC Centre for Technology Exchange and Training for Small and Medium Enterprises (ACTETSME)¹⁹ which focuses on providing support for SMEs and specifically promotes training and skills development in the region.

Network initiatives

There are two networks of relevance in this context. One is the Working Group for International Co-operation in Skills Development established by the Network for Policy Review Research and Advice on Education and Training (NORRAG)²⁰ hosted by the Graduate Institute of Development Studies of the University of Geneva with participation of the Swiss Agency for Development and Co-operation (SDC) and the ILO. The Working Group was launched in 1996 as a forum to promote the exchange of new ideas and good practices, highlight key issues in the field of skills development and stimulate dialogue and co-operation among its members.

A second network/forum is the "ILO Skills Network in Asia Pacific"²¹, a network established by the ILO including countries from the Asia Pacific area such as Afghanistan, Australia, China, New Zealand, Pakistan and Southeast Asian countries. The forum was established in 2005 to access information and share expertise and knowledge through networking, technical co-operation and joint programmes.

Local initiatives

While international and national initiatives are important in setting up the framework of skills development for the labour force, local initiatives often deliver better results and/or complete their effects by leveraging local resources and innovation for maximum impact. Projects undertaken within the framework of the OECD LEED Programme have highlighted a number of initiatives worth noting in the region: training and skills development organisations (Malaysia and Cambodia-Thailand), investment in job training in SMEs (Viet Nam), training addressing poverty and gender (Philippines), training in good governance (Indonesia), indigenous employment training (Malaysia), and training in value-chains in Viet Nam. These initiatives are briefly discussed in this section.

Training and Skills Development Organisations (Malaysia)

An example from Malaysia, the Penang Skills Development Centre (PSDC) is outlined below in Box 12. The result of a partnership between industry and government, PSDC provides training services that are in line with business needs. Some of the direct positive impacts of the PSDC include:

1. building the calibre of the Penang talent pool;

¹⁹ Source: <http://actetsme.info/cms/>

²⁰ www.norrag.org/wg/

²¹ www.ilo.org/public/english/region/asro/bangkok/skills-ap/skills/index.htm

2. increasing the employment chances of unemployed recent graduates by narrowing the skills gap through training;
3. increasing the labour pool for the industry by providing affordable education and training to rural students; and
4. providing vocational training for the less academically inclined students.

The PSDC business model is applicable to developing countries that face rapid industrialisation and a workforce which is under-equipped to support the changing industrial needs. The underlying factors for effective replication are the industry-driven approach and government commitment. To date, PSDC has consulted for countries such as Madagascar, Bangladesh and Brazil through its affiliation with the World Bank and various other international consulting agencies.

Box 12. The Penang Skills Development Center (PSDC) Malaysia

The Penang Skills Development Centre (PSDC) was established in May 1989 as a not-for-profit training and development centre. At initial start-up, the PSDC received support from the Penang State Government in the form of subsidised rental of premises, and an annual training grant for the centre. As it grew in relevance it attracted the attention of the federal government. Starting from 1993, the PSDC received capital grants to assist with its capacity building expenditure such as equipment and machinery. The PSDC invites membership from the manufacturing and related industries and to-date has a member base of 130 companies. With strong support from the government and industry, the PSDC undertook the facilitation of effective resource utilisation amongst the manufacturing and service industries. In its first year of operations, the PSDC offered a total of 16 courses with 309 participants.

The PSDC does not target any specific group and is accessible to all who wish to pursue lifelong learning. However, its staple programmes such as those conducted on behalf of the government and the degree and diploma programmes offered under continuous education tends to attract:-

- i. secondary school (high school) leavers;*
- ii. unemployed graduates; and*
- iii. the existing workforce which requires re-skilling and skills upgrading.*

The success of the PSDC is also attributable to its tripartite business model which draws the involvement of its three key stakeholders: industry, academia and government. The PSDC is managed and led by the industry and is supported by national academic bodies and the government. The PSDC is managed by a Management Council which is comprised of elected members from the existing member base.

Six government agencies are involved with the PSDC:

- i. the Ministry of Entrepreneur & Cooperative Development (MECD)*
- ii. the Small Medium Industries Development Corporation (SMIDEC)*
- iii. the Standard and Industrial Research Institute of Malaysia (SIRIM)*
- iv. the Penang Regional Development Authority (PERDA)*
- v. the Penang Development Corporation (PDC)*
- vi. the Penang State Secretariat*

These agencies represent the various interests of the government such as local enterprise development, research and development and both state and national level development initiatives. More importantly, their involvement in the PSDC council enables the PSDC to understand the policy directions of the government and therefore, to implement and introduce new human resource development initiatives which complement national policies.

Source: LEED Programme "Designing Local Skills Strategies" Study (2009).

The region has other notable examples of skills development; some are the result of cross-border co-operation such as the Cambodia-Thai Skills Development Centre (see Box 13 below).

Box 13. Cambodia-Thai Skills Development Centre

The Cambodia-Thai Skills Development Center is located at Sre Racheah Village, Samrong Krom Ward, Dangkor Precinct, Phnom Penh City, about 20 kilometers from the center of the city. The Center is built on an area of 54 711 square meters.

The Cambodia-Thai Skills Development Center (Poun Phnom) is the result of co-operation between the Ministry of Social Affairs, Labor, Vocational Training and Youth Rehabilitation of the Kingdom of Cambodia and the Ministry of Labor and Social Welfare of the Kingdom of Thailand.

The Center was built in 1996 and completed in 2000 with 5 main buildings: an administration building, a workshop, a warehouse, an electricity building and a refectory building. All of which are equipped. The training courses are organised by the Ministry of Social Affairs, Labor, Vocational Training and Youth Rehabilitation. The course runs for 6 months with 8 hours of courses per day. There are 2 trainers per course, which are made up of approximately 30% theory and 70% application. An advisor from Thailand helps with the content of each course.

The Cambodia-Thai Skills Development Center has trained about 150 to 300 trainees per year in 6 skills: welding, electricity, air conditioner machine repair, small engine repair, construction and automotive repair.

Target groups that benefit from the Center include underprivileged youth, demobilised soldiers, orphans, and school leavers. The training is free of charge.

Source: Ministry of Social Affairs, Labor, Vocational Training and Youth Rehabilitation, Department of Vocational Training www.mosaly.gov.kh/English/de-training/vacat-tranin/vacat-tranin.html.

Job training in SMEs (Viet Nam)

The Viet Nam province of Ben Tre has invested more than VND 1 billion in assisting SMEs to upgrade their production capacity and product and services quality. Of the investment, VND 255 million is provided from the National Industrial Promotion Programme (NIPP). The funding is managed by the Ben Tre's Center for Industrial Promotion (CIP) which will invest in job training, scientific and technological transferring, and establishment of the engineering process for the manufacture of coconut-based products, agricultural products, and other industrial products such as bags, bricks, etc.

Ben Tree CPI organises other types of formal and informal activities, such as:

- visiting and learning tours to see successful production models outside the province;
- classes to update market knowledge;
- assisting enterprises with participation in a high-profile trade fair;
- conferences on how to boost competitive capacity for enterprises, helping them to be more active in the current tendency of international integration (Source: www.bentre.gov.vn).

Addressing women's skills (The Philippines)

The TESDA Women's Center in Taguig City, metropolitan Manila in the Philippines offers training for women unemployed or underemployed and at risk of entering the poverty threshold (see Box 14).

Box 14. TESDA Women's Center offering training for household service workers

On 16 December 2006, the Department of Labor and Employment (DOLE) implemented the new protection and welfare enhancement reforms for the recruitment and deployment of Household Service Workers (HSWs). One of the reforms includes requiring higher competency standards for pre-qualification of workers through the possession of an HSW National Certification from TESDA. This certification aims to shift workers into the higher end of the labour market in terms of salary, skills proficiency, and language and culture orientation.

For its part, TESDA, through the PGMA Training for Work Scholarship Programs, has included the Household Services NC II in its roster of training programmes offered for free. The TESDA Women's Center (TWC) will therefore serve as a model institution, being the first to undertake HSW certification. The qualified scholars are entitled to scholarship certificates of PHP 5 000 each for a training period of 1 ½ months. After completion of training, they are required to undergo the competency assessment, in order to obtain the HSW NC II qualification. This certification will attest to the possession of the four HSW core competencies namely: housecleaning, laundry and ironing, preparing hot and cold meals, and providing food and beverage services.

To ensure that the HSW graduates would be able to define their worth and value as a person, the TWC has included training on gender sensitivity which primarily provides awareness on gender issues and women's rights. This module allows them to be more sensitive to possible malpractices, abuses and exploitation that may be committed against them by their employers. There is another important module on work ethics and value development to help them develop a strong foundation of personal work values and enable them to understand the dynamics of human growth and development.

TWC's first run of HSW training started on 12 March 2007 with 26 trainees who are set for employment immediately after the training. The TWC set a target to train 1 000 HSWs in 2007. Enrollment is ongoing for the next batch of HSW.

Source: TESDA, <http://twc.tesda.gov.ph>.

Training in good governance (Indonesia)

The Indonesia-Australia Specialised Training Project (IASTP) commenced in April 2004 and will finish in December 2008. The estimated budget is AUD 70.5 million with an AUD 62.5 million financial contribution by the Australian Government and AUD 8 million financial and in-kind contribution by Indonesia. The project is implemented by the State Secretariat in the following locations: East Java, South Sulawesi, Southeast Sulawesi, Maluku, North Maluku, Papua, East and West Nusa Tenggara, Aceh and Bali.

The project contributes to good governance through improved economic management, improved governance practices and the enhanced delivery of basic social services (health and education) consistent with Indonesia's development needs and priorities. It provides specialised short-term training and capacity building initiatives at the central, provincial and district levels, mainly in eastern Indonesia. A description of the programme and outcomes is provided in Box 15 below.

Box 15. Indonesia-Australia Specialised Training Project Phase 3 (IASTP 3)

IASTP III provides specialised and capacity building training to create a strongly integrated training model unique to Indonesia. Action plans are the key mechanism used to align training with organisational planning and organisational change. Mentors provide a vital link between the project and Indonesian government agencies, and are actively involved in each stage of the training cycle. Capacity building training is designed to enhance the skills and abilities of mentors.

Courses cover subjects as diverse as district and provincial planning, district and provincial economic planning, small enterprise trade and export promotion, economic governance, public accountability, human rights, women's empowerment and mainstreaming, environmental law, local parliamentary procedures drafting, journalism, legal development, IAINS teacher development, HIV/AIDS with a focus on drug abuse prevention/intervention, basic health service management, basic education services and the training cycle.

Partnerships between sub-contracted Australian and Indonesian training providers are strongly encouraged, and the project designs and delivers training courses that specialise in gender awareness, mainstreaming and analysis. Indonesian government partners, other stakeholders and provincial decision makers are involved in development, delivery and monitoring.

Achievements/outcomes

- *Upgrading the knowledge and skills of mid-career, middle-level professionals in the public, non-government and private sectors through the provision of over 1000 training courses and 200 000 total participant training days in Indonesia or Australia from July 2004 to December 2008.*
- *Incorporating good governance, gender and change management into all training programs, and making the modules publicly available.*
- *Assisting other projects as well as providing one-off courses to meet emerging training needs.*
- *Assisting the Province of Bali's medical, health and emergency services to better coordinate disaster and emergency relief, which helped improve the response to the second Bali bombing.*
- *Training 240 government officials in Aceh to help them develop strategic plans and budgets to meet local and central reporting and financial requirements.*
- *Assisting 22 Aceh land mappers refine and improve land mapping skills and graduate with formally accredited train-the-trainer skills, thus broadening the land mapping skill base within Aceh communities.*
- *Working in collaboration with Provincial Diklats in selected Eastern Province locations to better support decentralisation and strengthen capacity.*
- *Undertaking a training provider survey, to better inform and improve tendering opportunities and processes with resultant information made available to assist other AusAID-funded projects.*
- *Participants from Indonesia's Ministry of Finance and the national Planning Board (BAPPENAS), China's Ministry of Finance and National Development and Reform Commission, and Australia's Treasury attended a fiscal management training course. The course had the dual purpose of teaching fiscal management skills and establishing relationships between the personnel of agencies responsible for fiscal management in Australia, Indonesia and China.*
- *Ministry of Women's Empowerment personnel have received gender mainstreaming training both in Indonesia and in Australia through IASTP. This training has enabled the ministry to fulfil its mandate as the agency responsible for reporting to the president on the progress of gender mainstreaming across the Government of Indonesia.*
- *In co-operation with the AusAID-funded Indonesia-Australia Specialised Training Program (IASTP), DG Tax has been able to introduce and educate over 800 staff members in regional offices throughout Indonesia about the existence and operation of a Code of Conduct for DG Tax staff.*

Training for Indigenous people in rural areas (Myanmar)

Majilis Amanah Rakyat (MARA), or the Council of Trust for the Indigenous People, is an agency under the Ministry of Entrepreneur and Co-operative Development in Myanmar. It was incorporated on 1st March 1966 through a Parliamentary Act as a statutory body, resulting from a resolution of the first Bumiputera Economic Congress held the previous year. The objective of MARA is to encourage, guide, train and assist the Bumiputera (living in rural areas) to participate actively in commercial and industrial activities.

One of MARA's implementation strategies is to increase the number of trained Bumiputera manpower at all levels and in various fields to cater to the needs of the nation's commercial and industrial sectors. MARA offers qualified training programmes which match the current needs of industrial and technological development. Training programmes are at the certificate and diploma level on electrical engineering / air conditioning technology, automation engineering and maintenance, art and design (multimedia, graphics, advertising, interior design), electronics (engineering technology, communications, mechatronics), building (architectural technology, civil engineering, plumbing) and mechanical engineering (drafting and design, machine maintenance, steel metal fabrication, welding and fabrication) (Source: MARA www.mara.gov.my).

Training in value-chains (Viet Nam)

An innovative approach to skills development is found in Viet Nam's Quang Ngai province where the analysis of the local fish sauce value-chain sector suffered from growth and competitiveness constrains related, among others factors, to the lack of technical skills to produce a quality product in terms of taste and colour. Some of the interventions developed by the current "Poverty Reduction through Integrated Small Enterprise Development" (PRISED) project are:

- training on technical skills to improve the quality of the fish sauce;
- supporting co-operation between small scale processors through associations or marketing groups; and
- establishing links between input suppliers and fish sauce producers.

As value-chains do not stop at borders, flexibility is required to implement the project along the value-chain even when target areas cross provinces or districts (ILO Local Economic Development www.ilo.org/led).

5. Conclusions

Southeast Asia is a region of diversity, booming business and social and economic complexity that provides opportunities for strategic planning of employment and skills development. This report has explored some of these critical issues for the development of the region.

Demographic change in the region is a determinant of modern development...

Demographic change and chiefly the process of urbanisation is a significant determinant of local skills and talent as workers from rural areas concentrate in the cities where, more often than not, training, re-training and up-skilling is needed for their skills to be utilised. The impact of demographic change, rapid urbanisation and declining population growth rates on skills and employment development are under-explored factors for the economic integration of Southeast Asian countries.

...in the context of regional economic growth contained by the financial crisis...

The region of Southeast Asia as a whole is suffering the effects of the 2008 economic crisis. The global economic downturn, coupled with heightened risk aversion in financial markets has adversely impacted trade and investment in the region. However, while regional economic growth is contained by the financial crisis, it is less so in Southeast Asia countries than in many other developing countries because of their high savings rates, good management of public deficits over the years and limited toxic assets on their banks' balance sheet.

...where the informal economy continues to expand...

ASEAN countries (except Singapore) have dual economies and, accordingly, dual labour markets and skill requirements. The modern sector must enhance its competitiveness on global markets while the traditional, mostly rural sector needs anti-poverty programmes focused on job creation and the development of skills that can support rural livelihoods. Educational and training institutions are mainly targeting the modern sector and, as a result the poor have little access to skill development. This dual characteristic calls for local flexibility as a principle for institutional reform.

As economies become more advanced, governments in the region should give attention to strategies that facilitate the transition of entrepreneurs and self-employed from the informal economy into the formal economy. Governments should also focus their efforts on skills development and productivity of organisations that operate in the formal sector, especially those that are involved in higher value-added production and support high skill development so that more and better jobs can be generated and local innovation systems improved. Nevertheless, emerging evidence suggests that the distinction between the informal and formal modes of employment is becoming less distinct, especially as more and more professionals combine the two forms of employment. This is an area that needs more research and one that donor organisations and governments should investigate.

...and unemployment is especially hitting the youth...

Youth unemployment rates in ASEAN developing countries are on average three to four times higher than adult unemployment rates. Youth unemployment in developed countries is usually 1.5 times greater than adult unemployment and it is important for policy makers to address the gender implications of such trends. In addition, it can potentially lead to social and political instability. Perhaps more importantly, it leads over time to an erosion of the competencies acquired through education and training if these are not consolidated through practice in the work place.

...in an overall trend of industrial restructuring into the service economy.

Most Southeast Asian economies are moving towards a more service based economy from their manufacturing base; the trend is happening at a lower but increasing rate when compared with OECD countries.

In a region where agriculture production is still very high, the declining importance of agriculture appears to reflect a trend towards modernisation in which countries move up the value-added chain into manufacturing and services. However, this is not necessarily the automatic pattern of development and the declining importance of agriculture and the number of people employed in this sector can have serious implications for the Southeast Asia region.

Employment and skills development can be unpacked into 10 key issues...

Skills development has been a major accompaniment to growth in Southeast Asia. The very high growth rates of many countries, combined with the changing nature of work, and the challenges and opportunities associated with globalisation, mean that skills development requirements are ever shifting. This means an increased need for both skills upgrading and new skills that fuel industry competitiveness. Forecasting future skills remains an important challenge to meet the changing needs of these growing economies.

...First, there is a lack of decent and productive employment...

As industrialisation proceeds, enterprises tend to move higher up the value chain and also become more capital-intensive. As a result, the most successful trading countries, primarily in East Asia, are now creating jobs far more slowly, a process that has been called "Jobless Growth". Moreover, there is also a worrying trend that a significant majority of the jobs being created are low skilled and low paid sectors. Thus, the need for strategies not only for creating better but also more jobs. More analysis is also needed on how to move the demand for labour up-scale in the industrial structure.

...Second, there is a need to reform labour market institutions...

Across the region insufficient attention has been given to the role of labour market institutions (LMI) resulting in weak LMIs, poor enforcement, and limited social dialogue, which together constrain national efforts to promote decent work. LMIs cover a whole range of activities and services, including: employment services, career guidance, the provision of employability skills and information about employment opportunities. One of the most important constraints facing Asian labour markets is the lack of effective employment services, particularly in the light of decentralisation of policies and the handing down of power to provincial level governments.

National policies should be completed by sound government arrangements for the management of labour markets, injecting flexibility for programmes to be customised at the local level and by using local partnerships to stimulate policy co-ordination. An integrated approach to skills development should highlight the role of local partnerships in the ASEAN approach.

...Third, skills mismatch is evident...

There is generally a mismatch between skills acquisition and business needs in the region. Skills development of the labour force requires an enabling environment so that the provision of skills is balanced with the provision of opportunities to use these skills. Therefore, skills development should be integrated with employment promotion - for both the formal and informal private sector. In particular, international co-operation in developing an enabling environment for micro and small-enterprises is of

critical importance. It is essential to examine the interaction between country approaches to skills development and country approaches to skills utilisation. Past experience across countries suggest that training alone will, in most cases, result in disappointing employment outcomes.

Until the situation changes substantially, public-sector agencies will have to be the principal source of business development services (BDS) and extension activities for domestic firms, SMEs included. However, public-sector BDS are generally not that flexible and adaptable to changing needs. They also tend to be managed and delivered largely on a bureaucratic manner, and on a supply-driven basis. Furthermore, the inherent lack of financial resources and skilled human resources means that public provision of BDS is unlikely to be adequate, relative to needs. New and innovative modalities for the delivery of BDS and extension activities to SMEs are needed. As far as possible, the main objectives should be substantive relevance and extensive outreach.

There is also a need to raise the scale of training delivered (i.e. quantity) as well as the relevance of training to the demands of the private sector, the suitability of training for emerging new categories of workers such as women, and the certification of training where possible (i.e. quality).

... Fourth, good governance is a key priority for Southeast Asian institutions...

Governance of labour markets is of critical importance, especially as the need for local flexibility is emerging as a key action for fostering innovation, entrepreneurship and local cohesion in local economic development. However, meeting local needs is still a challenging task requiring action in six domains: (1) injecting flexibility into the management of labour market policy; (2) establishing an overarching management framework which embeds local flexibility; (3) building strategic capacity; (4) building up local data and intelligence; (5) improving partnership mechanisms; and (6) improving administrative processes.

...Fifth, poverty reduction still challenges development in the region...

The target groups for poverty reduction/fighting against exclusion are: women, unemployed youth, people with disabilities, ethnic minorities, and people living in rural communities. Skills development activities refer to life-skills based education, capacity-building in social sectors such as health, and training of disadvantaged groups in primary sectors such as agriculture, and entrepreneurship.

Issues of integration of disadvantaged groups in the labour market through the provision of basic skills and training are a key priority for combating poverty but insufficiently deal with by education institutions with a greater focus on the most modern and formal sectors.

...Sixth, growth of the informal economy is not slowing down...

The expansion of the informal economy correlates with the process of demographic change and urbanisation. Although agricultural employment is declining, the number of own-account workers is expected to increase by over 43 million. The informal economy is likely to account for 60% of ASEAN's total employment by 2015 fuelled by the rapid growth of many national urban populations in the region and the ongoing expansion of their service sectors.

...Seventh, migration and mobility pose both challenges and opportunities...

Migration and mobility (both between and within countries) is driving the need for increased skills portability (transferability and recognition). There is increasing debate in both policy and academic literature about whether country based New Qualification Frameworks (NQFs) for occupations are suitable for developing countries, the consensus of opinion at the moment suggesting that they are is not. The

reasons are found in the high mobility of workers between countries, which requires a flexible approach to qualifications. NQFs in developing countries also have the challenge of lacking recognition in developed countries.

...Eight, the impact of Free Trade Agreements remains largely unexplored...

The negotiation of FTAs in the region has also led to a plethora of trade issues and recurring implementation problems for the enterprise sector, chiefly for SMEs. While trade liberalisation generates income growth and has been the major source of prosperity in the region, it also generates shocks on the labour market as jobs are created and lost. Moreover, while market access provides opportunities for new jobs, only jobs for which skills exist may be created. More analysis is needed on FTA provisions regarding labour standards and the movement of people. How FTAs actually benefit from skills and employment strategies within ASEAN remains to be fully explored.

...Ninth, industrial composition is fragmented...

There is a high proportion of SMEs in the region but often with a "missing middle", a hollowness in the industrial structure where there is a lower-than-average presence of medium firms. SMEs outnumber large enterprises in ASEAN member countries in both the quantity of establishments and the share of labour force they employ.

An important limitation to SMEs development is the lack of agreement on the definition of SMEs and the lack of data and information on the SME sector which are not up-to-date across the region. The shortage is both acute and systemic and it has persisted despite the intrinsic importance of SMEs to Southeast Asian economies and a renewed policy focus on them in recent years. Among other constraints are the difficulties to assess the state of skills in SMEs in the region and the strategies which need to be put in place to maintain and upgrade skills for competitiveness and innovation.

...Tenth, there is a lack of entrepreneurial development linked to productive activities...

Entrepreneurship development and managing skills (especially for SMEs) are needed across all industries. However, limited data is available on skills provision, increasing the challenge for policy design. Yet, there is evidence that training for workers in the informal economy on basic and generic skills (such as literacy and numeracy) as well as entrepreneurial skills (such as risk management, opportunity analysis) facilitate the transition from self-employment in the informal economy to micro-enterprise development in the formal economy.

Across the region there is little emphasis on building up local capabilities for training in entrepreneurship development. In particular, financial capabilities of SMEs constitute one of the greatest challenges for this sector to survive through the economic crisis and therefore it is a key skill to be developed in OECD and non OECD countries.

Policy responses to these key issues indicate the priority of skills recognition...

The importance of strategic policy responses cannot be under-estimated. It will be important for governments in South East Asia to ensure that all forms of skills development, as well as strategies for employment and entrepreneurial development, are linked to areas of growth or industrial development. In simple terms this means that governments, together with social partners, must carefully define areas for industrial development at the national and local levels. Once priority areas have been identified it will be possible to ensure that synergy occurs with strategies for employment and skills development, such that synergy occurs between industrial and skills development.

A strong commitment from government, at all levels, in the process of skills formation is needed. This includes ensuring that the education system produces young people with strong intermediate level skills, especially in the areas of science, maths, IT and literacy. Employers in strategic economic sectors need to commit to developing high level science and technology skills while skill formation in the workplace is regulated by government intervention to ensure minimum standards and long term investments in strategic areas. Worker's organisations also need to commit to high skill development and continuing life-long learning while tertiary level education institutions need to provide appropriate academic knowledge in order to underpin practical skill formation in the workplace.

Labour force migration and the issue of skills recognition are largely under-analysed in Southeast Asian countries despite important flows of labour and some bilateral relationships between sending and receiving countries as well as the frameworks being established through the Free Trade Agreements (FTAs). The development of a common framework for skills and qualifications is an urgent issue to tackle.

Finally, the whole policy framework must look towards the future and not just understand the present needs. This will involve using labour market and economic information to help identify which industrial sectors are likely to develop over the medium and longer term. Only by adopting such an approach will it be possible for government policy to become pro-active, ensuring that strategies for skills development and employment facilitate change, as opposed to reacting to skills and labour shortages.

...and the focus on poverty reduction, socio-economic development and governance.

Getting a balance between skills for economic development, or knowledge-based development, and skills for poverty alleviation is essential if inequalities are to be reduced. To achieve this aim cross-border development opportunities continue to be promoted and pursued by Southeast Asian countries; governments are well aware of the benefits of cross-border co-operation although there is little information of the impact this will have on skills upgrading.

Innovative examples across the region show a wealth of local labour force oriented initiatives related to cross-border development, formation of skills networks and value-chain approaches indicating the significance of the local level in human capital development. How the local level could better provide for more and better jobs is part of intrinsic planning for the region and its actors as a whole.

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APPENDIX 1: SOUTHEAST ASIA

The sub-region of Southeast Asia consists of countries that are geographically south of China, east of India and north of Australia (Figure 10). There are two geographic regions: the Asian mainland, and the island arcs and archipelagos to the east and southeast:

Figure 23. Figure 23 Southeast Asia

- The mainland section consists:
 - Cambodia
 - Lao PDR
 - Myanmar
 - Thailand
 - Viet Nam
- The maritime section consists:
 - Brunei Darussalam
 - Indonesia
 - Malaysia
 - Singapore
 - The Philippines



Source: ASEAN website www.aseansec.org

APPENDIX 2: SMES DEFINITION

Table 22. Definition of SMEs in selected countries in Southeast Asia, 2002 number of workers and capital investment

Country	Number of workers	Capital investment (US\$)
Brunei Darussalam		
Small	Less than 10 persons	-
Medium	11-100 persons	-
Indonesia		
CHI (a)	1-4 persons	-
Small	5-19 persons	-
Medium	20-99 persons	-
Malaysia (b)		
SMEs	Less than 150 persons	-
Myanmar (b)/		
Small	10-50 persons	Less than 148.6 thousand (c)
Medium	51-100 persons	148.6 to 742.9 thousand (c)
Philippines		
Cottage	1-9 persons	1.9 to 28.8 thousand (d)
Small	10-99 persons	28.8 to 287.9 thousand (d)
Medium	100-199 persons	287.9 to 1.15 million (d)
Singapore		
Manufacturing	Less than 100 persons	Less than 0.8 million (e)
Services	Less than 200 persons	Less than 0.8 million (e)
Thailand		
Manufacturing and services		
Small	Less than 50 persons	Less than 1.7 million (f)
Medium	51-200 persons	1.17 million to less than 4.67 million (f)
Wholesale trade		
Small	Less than 25 persons	
Medium	26-50 persons	
Retail trade		
Small	Less than 15 persons	
Medium	16-30 persons	
Viet Nam		
Small	Less than 30 persons	Less than 65 thousand
Medium	30 to 200 persons	65-260 thousand

Source: Asasen, Asasen and Chuangcham, 2003.

(a) Cottage and household industries.

(b) Manufacturing firms and manufacturing-related service enterprises only.

(c) Official exchange rate of local currency: 6.73 per dollar as of May 2002. Market rate of exchange: 952.5 per dollar (as of September 2002) thus equivalent to USD 1 050 for small enterprises, and between USD 1 050 and USD 5 250 for medium-scale enterprises.

(d) Official exchange rate of local currency: 52.1 per dollar as of September 2002.

(e) Official exchange rate of local currency: 1.8 per dollar as of September 2002.

(f) Official exchange rate of local currency: 42.8 per dollar as of September 2002.

Table 23. Definitions of SMEs in selected countries in Southeast Asia, 2002 value of assets and annual sales

Country	Asset (USD)	Annual sales values (USD million)
Brunei Darussalam		
Small	-	-
Medium	-	-
Cambodia (b)		
Small	75,000 to less than 0.25 million	
Medium	0.25 million to less than 1 million	
Indonesia		
CHI (a)	-	-
Small	Less than 20,000 (c)	Less than 0.1
Medium	20,000 c/ to 50,000 (c)	0.1 to 5 million
Malaysia (d)		
SMEs	-	Less than 6.6 million (e)
Myanmar (d)		
Small	-	Up to 0.3 million
Medium	-	0.3 to 1.5 million (f)
Philippines		
Cottage	-	-
Small	-	-
Medium	-	-
Singapore		
Manufacturing		
Services		
Thailand		
Manufacturing and services		
Small		
Medium		
Wholesale trade		
Small		
Medium	Less than 0.7 million (g) 0.7 million to less than 1.4 million (g)	
Retail trade		
Small	Less than 0.7 million (g)	
Medium	0.7 to less than 1.5 million (g)	
Vietnam		
Small		
Medium		

Source: Asasen, Asasen and Chuangcham, 2003.

(a) Cottage and household industries.

(b) Manufacturing sector only; assets excluding land.

(c) Excluding the value of land and building.

(d) Manufacturing firms and manufacturing-related service enterprises only.

(e) Exchange rate of local currency: 3.8 per dollar.

(f) Annual production value converted according to the official exchange rate (as above). Conversion with the market rate will yield US\$ 2,625 for small enterprises, and between US\$ 2,625 and US\$ 10,500 for medium-scale enterprises.

(g) Official exchange rate of local currency: 42.8 per dollar as of September 2002.

Asasen, Asasen and Chuangcham (2003) identified three issues regarding the variance in SME definitions within Southeast Asian countries (Box 16) with the consequences for SME-support policies, programmes and projects.

Box 16. Variance on SME definitions

Firstly, the levels of capital intensity required by firms differ significantly in different industries and sectors. Likewise, there are different levels of labour intensity involved in different production and service activities. Therefore, many firms may not be regarded as belonging to the SME sector at all on some criteria. However, they are SMEs on the basis of other criteria. This complexity poses difficulties in the design, implementation and coordination of SME-support policies and in the evaluation of their impact.

Secondly, SMEs are lumped together and defined as one category of firms in some countries. This tends to obscure two important parameters. One is the large gap of capabilities and competitiveness between these two classes of firms. The second is the "graduation" from small to medium scale enterprises. This process affects the design and focusing of SME-related policies.

Thirdly, growth and change will create further problems in SME classification. As economies are constantly expanding in terms of income and employment, the skill base of workers, and the technological sophistication as well as the structure of production and services itself, requires the definition of SMEs to evolve over time to ensure a consistency and coherence in SME-support policies, programmes and projects.

Source: Asasen, Asasen and Chuangcham (2003).

APPENDIX 3: ASEAN COUNTRIES – EMPLOYMENT BY MAJOR INDUSTRY GROUP

Table 24. Percentage of employment by major industry groups

	Agriculture, Forestry, Hunting, Fisheries (%)							
	1995	1996	1999	2000	2001	2002	2003	2004
<i>Bruenei Darussalam</i>	2							
<i>Cambodia</i>		78.1	76.3	73.7	70.2	70		
<i>Indonesia</i>		44		45.3	43.8	44.3	46.4	
<i>Lao PDR</i>								
<i>Malaysia</i>		16.8		18.4				
<i>Myanmar</i>		66.6						
<i>The Philippines</i>		41.7	39.1			37.4	37.2	37.3
<i>Singapore</i>								
<i>Thailand</i>	52		47.4		45.1	44.6	43.4	44
<i>Viet Nam</i>		9.5		6.6				
	Manufacturing Industry (%)							
	1995	1996	1999	2000	2001	2002	2003	2004
<i>Bruenei Darussalam</i>	5.8							
<i>Canbodia</i>		3.8	4.7	7	8.7	8.7		
<i>Indonesia</i>		12.6		13	13.3	13.2	12.4	
<i>Lao PDR</i>								
<i>Malaysia</i>		27		22.8				
<i>Myanmar</i>		8.8						
<i>The Philippines</i>		10	9.6			9.4	9.7	9.6
<i>Singapore</i>		23.2		20.8	18.8			
<i>Thailand</i>	13.4		14.5	14.5	14.7	15.6	15.6	
<i>Viet Nam</i>		19.6		20.4				

	Construction							
	1995	1996	1999	2000	2001	2002	2003	2004
<i>Bruenei Darussalam</i>	50.4							
<i>Canbodia</i>		0.9	1.5	1.3	1.5	1.6		
<i>Indonesia</i>		4.4		3.9	4.2	4.7	4.4	
<i>Lao PDR</i>								
<i>Malaysia</i>		8.6		8.6				
<i>Myanmar</i>		2.1						
<i>The Philippines</i>		5.7	5.2			5.3	5.3	5.2
<i>Singapore</i>		6.6		13.1	6.1			
<i>Thailand</i>	5.7		4.1		4.4	4.6	5.1	5.6
<i>Viet Nam</i>		9.7		10.8				
	Wholesales Trade, Retail Trade, Restaurants and Hotels							
	1995	1996	1999	2000	2001	2002	2003	2004
<i>Bruenei Darussalam</i>	15.6							
<i>Canbodia</i>		9	7.8	8.6	10.5	10.4		
<i>Indonesia</i>		18.8		20.6	19.2	19.4	18.6	
<i>Lao PDR</i>								
<i>Malaysia</i>		16.5		19.2				
<i>Myanmar</i>		9.7						
<i>The Philippines</i>		14.8		15.9		20.9	20.5	20.9
<i>Singapore</i>		23.2		19.2	21.1			
<i>Thailand</i>	12.6		15.3		19.7	20.8	21.8	22.9
<i>Viet Nam</i>		7.6		6				
	Transportation, Storage, Communication							
	1995	1996	1999	2000	2001	2002	2003	2004
<i>Bruenei Darussalam</i>	5.7							
<i>Canbodia</i>		1.5	2.2	2.3	2.7	2.7		
<i>Indonesia</i>		4.6		5.1	4.9	5.1	5.3	
<i>Lao PDR</i>								
<i>Malaysia</i>		5.1		4.5				
<i>Myanmar</i>		2.6						
<i>The Philippines</i>		6	6.9			7.2	7.5	7.7
<i>Singapore</i>		11.2		9.4	11.1			
<i>Thailand</i>	3		3		3	3	3.2	3.2
<i>Viet Nam</i>		6.4		6.2				

	Finance, Insurance, Real Estate and Business Services							
	1995	1996	1999	2000	2001	2002	2003	2004
<i>Bruenei Darussalam</i>	6.8							
<i>Canbodia</i>		0.3	0.3	0.3	0.2	0.3		
<i>Indonesia</i>		0.8		1	1.2	1.1	1.4	
<i>Lao PDR</i>								
<i>Malaysia</i>		4.8		5				
<i>Myanmar</i>		7.9						
<i>The Philippines</i>		2.5	2.5			2.9	3.3	3.2
<i>Singapore</i>		14.1		15.4	17.2			
<i>Thailand</i>					2.5	2.4	2.5	2.8
<i>Viet Nam</i>		3.4		4				
	Public Services							
	1995	1996	1999	2000	2001	2002	2003	2004
<i>Bruenei Darussalam</i>	5.6							
<i>Canbodia</i>		6.3	7	6.7	5.9	6.2		
<i>Indonesia</i>		13.7		10.7	12.1	11.3	10.6	
<i>Lao PDR</i>								
<i>Malaysia</i>		19.7		20.8				
<i>Myanmar</i>		1.5						
<i>The Philippines</i>		18.3	20			16.2	15.9	16
<i>Singapore</i>		21		21.6	24.7			
<i>Thailand</i>					9.6	9.5	10	10.4
<i>Viet Nam</i>		38.7		41.1				
	Others (Mining, Electricity, Gas and Water)							
	1995	1996	1999	2000	2001	2002	2003	2004
<i>Bruenei Darussalam</i>	7.9							
<i>Canbodia</i>		0.1	0.2	0.1	0.3	0.3		
<i>Indonesia</i>		1.1		0.6	1.2	0.9	1	
<i>Lao PDR</i>								
<i>Malaysia</i>		1.4		0.8				
<i>Myanmar</i>		0.9						
<i>The Philippines</i>		0.9	0.8			0.7	0.7	0.7
<i>Singapore</i>		0.7		0.6	1			
<i>Thailand</i>	0.7		0.7		0.4	0.4	0.5	0.6
<i>Viet Nam</i>		5.1		4.9				

Source : Sourced and computed from ASEAN Statistical Yearbook 2003, 2004, 2005.

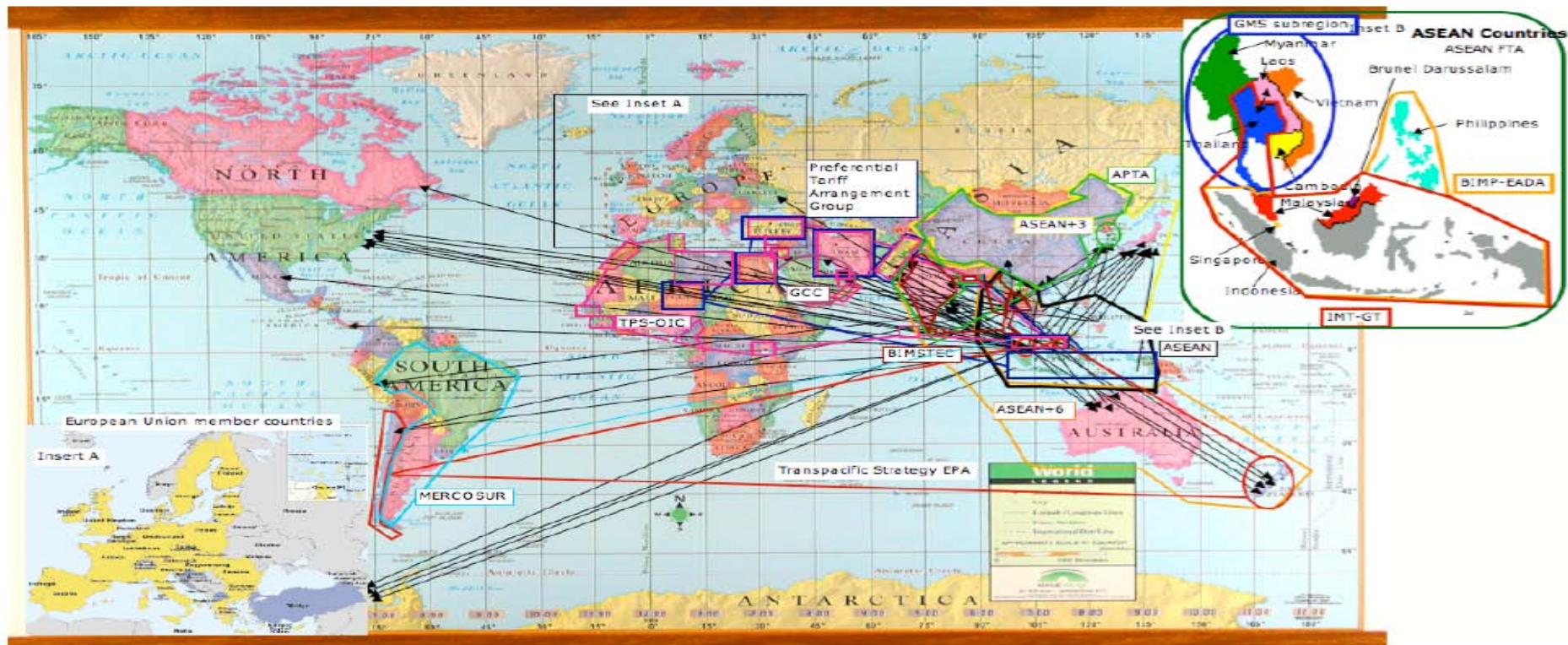
APPENDIX 4: FREE TRADE AGREEMENTS

Table 25. Table 25: FTAs in Southeast Asia

	ASEAN	Brunei Darussalam	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam	
ASEAN	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam
BIMSTEC	Green						Green			Green		Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, Thailand
EFTA									Green			Switzerland, Liechtenstein, Norway, Iceland
EU	Pink											
THE GULF COOPERATION COUNCIL									Yellow			Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE
TRANS-PACIFIC SEP	Yellow	Green		Pink		Yellow			Green	Green		Brunei, NZ, Chile, Singapore
Australia	Blue			Pink		Yellow			Green	Green		
Bahrain									?	?		
Brunei Darussalam									Green			Existing
Canada									Yellow			Under negotiation
Chile									Green	Pink		Feasibility Study/Under Discussion
China	Green								Yellow			Declarations
Egypt									?			
India	Yellow								Green	Yellow		
Indonesia												
Israel												
Japan	Blue	Green		Green		Green		Green	Green	Green	Yellow	
Jordan	Yellow								Green			
Korea	Yellow								Green			
Mexico									Blue			
New Zealand	Blue					Yellow			Green	Green		
Pakistan	Yellow					Green			Yellow			
Panama									Green			
Peru									Green			
Sri Lanka									?			
South Africa									?			
Thailand					Green				Yellow			
Ukraine									Yellow			
USA	TIFA	TIFA	TIFA	TIFA	Yellow	TIFA		TIFA	TIFA	TIFA	TIFA	

Sources
 WTO (<http://www.wto.org>)
 APEC (http://www.apec.org/webapps/fta_fta_information.html)
 bilaterals.org
 Individual Countries Government websites

Figure 24. FTAs interrelationships with ASEAN



Source : compiled from WTO (www.wto.org/); APEC (www.apec.org/webapps/fta_rta_information.html); bilaterals.org and individual countries government websites.

APPENDIX 5: STAKEHOLDERS AND POLICYMAKERS IN SOUTHEAST ASIA

Table 26. Southeast Asia stakeholders

Country	Co-operation Agency	Website
	Asian Development Bank (ADB)	www.adb.org
	World Bank	www.worldbank.org
	European Union (EuropeAid)	http://ec.europa.eu/comm/europeaid/index_fr.htm
	(United Nations Educational, Scientific, and Cultural Organisation (UNESCO)	www.unesco.org
	United Nations Development Programme (UNDP)	www.undp.org
	UNICEF	www.unicef.org
	United Nations Industrial Development Organisation (UNIDO)	www.unido.org
	International Labour Organisation (ILO)	www.ilo.org
	Southeast Asian Ministers of Education Organisation (SEAMEO)	www.seameo.org
	Organisation Internationale de la Francophonie (OIF)	www.francophonie.org
Australia	Australia's Overseas Aid Programme (AusAID)	www.ausaid.gov.au
Belgium	Direction Generale de la Co-operation au Developpement (DGDC)	www.dgdc.be
Belgium	Co-operation Technique Belge (CTB)	www.btccbt.org
Canada	Canadian International Development Agency (CIDA)	www.acdi-cida.gc.ca
China	Ministry of Foreign Affairs of the Peoples Republic of China, Department of Asian Affairs	www.fmprc.gov.cn/eng/wjb
Denmark	Ministry of Foreign Affairs, Danish International Development Agency (DANIDA)	www.umdk/da/forside
Finland	Ministry of Foreign Affairs of Finland	http://formin.finland.fi
France	Ministere des Affaires Etrangeres, Direction Generale de la Co-operation Internationale et du Developpement (MAE-DGCID)	www.diplomatie.gouv.fr
France	Agence Française de Developpement (AFD)	www.afd.fr
Germany	Federal Ministry for Economic Co-operation and Development (BMZ)	www.bmz.de
Germany	Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)	www.gtz.org
Germany	Capacity-Building International (Inwent)	www.inwent.org
Ireland	Irish Aid	www.irishaid.gov.ie
Italy	Ministry of Foreign Affairs, Directorate General for Development Co-operation	www.esteri.it
Japan	Japan International Co-operation Agency (JICA)	www.jica.go.jp/english/index.html
Luxembourg	Lux-Development	www.lux-development.lu
Malaysia	Malaysian Technical Co-operation Programme (MTCP)	www.epu.jp.m.my
Netherlands	Ministry of Foreign Affairs (MINBUZA)	www.minbuza.nl
New Zealand	New Zealand International Aid and Development Agency (NZAID)	www.nzaid.gov.nz
Norway	Norwegian Agency for Development Co-operation (NORAD)	www.norad.no
Portugal	Portuguese Institute for Development Support (IPAD)	www.ipad.mne.gov.pt
Singapore	Singapore Co-operation Programme (SCP)	http://app.scp.gov.sg/
South Korea	Korea International Cooperation Agency (KOICA)	www.koica.or.kr/english/main.jsp
Spain	Spanish Agency for International Co-operation (ASCI)	www.aeci.es
Sweden	Swedish International Development Agency (SIDA)	www.sida.se
Switzerland	Swiss Development Co-operation (SDC)	www.deza.ch
Chinese Taipei	Chinese Taipei International Co-operation and Development Fund (ICDF)	www.icdf.org.tw/English/index.asp
Thailand	Thailand International Co-operation Agency (TICA)	www.tica.thaigov.net/tica/index.jsp?sid=1&id=1&pid=1
U.K.	Department for International Development (DFID)	www.dfid.gov.uk
U.K.	British Council	www.britishcouncil.org
U.S.A	U.S Agency for International Development (USAID)	www.usaid.org

Source : Langstaff, Weyer and Carton, 2007.

APPENDIX 6: NATIONAL POLICY APPROACHES

Table 27. National Approaches

Institution	Country	Policy & Strategy	Skills dev. & training	Portal	Private sector dev.	Business association	Support	Clusters	Standards	Financing	Exchanging ideas & information	Advocacy	Forums	Promotion SMEs	Awards	Infrastructure Development
ASEAN																
APEC																
USAID and ADB	Cambodia															
ASEAN Foundation																
NORRAG																
AusAID and ADB	Indonesia															
	Malaysia															
	Brunei Darussalam															
ADB	Philippines															
	Singapore															
ADB	Thailand															
ADB	Vietnam															
ADB	LAO PDR															
	Myanmar															

Source : desktop Internet search – relevant institution and country based websites.

Other national initiatives

Preliminary desktop analysis of skills and employment strategies in Southeast Asia indicates the existence of gaps in the approaches undertaken by various countries. For example, although skills development and training is considered highly important by the majority of countries, Indonesia, Brunei Darussalam, and Viet Nam place less importance on such approaches. USAid and the Asian Development Bank in Cambodia have taken the approach of focusing on private sector development and business associations; however, this does not appear as a prominent approach in other countries. Support for business needs appears prominent in countries such as Cambodia, Indonesia, Malaysia, Brunei-Darussalam, Singapore, Thailand and Viet Nam. Financing of projects is popular in most countries but initiatives for exchange of ideas, information and forums has limited spread among countries apart from Cambodia, the Philippines and Vietnam. Promotion of SMEs and industry initiatives has greater focus in Cambodia, Brunei-Darussalam, the Philippines and Singapore. Appendix 6 shows an overview of national policy approaches although the data has some limitations. This section presents initiatives in Singapore, the Philippines, Brunei-Darussalam, Cambodia, Indonesia and Thailand.

The Philippines

The Philippines has a number of authorities related to training and skills development. The Department of Labour and Employment has five strategies with related programs and projects:

1. Support for Employment Generation. Major programs include:
 - Research and Policy Advocacy for Employment Generation
 - Capacity Building for Specific Sectors
 - Promotion of Rural and Emergency Employment
2. Employment Facilitation. Major programs include:
 - Local Employment Facilitation Program
 - Overseas Employment Facilitation Program
3. Employment. Major programs include:
 - Dispute Prevention and Settlement program
 - Workers Organisation, Tripartism and Empowerment Program
4. Employment Enhancement. Major programs include:
 - Technical Educational and Skills Training Program
 - Standard Setting and Enforcement Program
 - Productivity and Wage Setting Program
 - Social Protection and Welfare Program

5. General Administration and Support Services.

Source: ILO (www.ilo.org/public/english/region/asro/bangkok/skills-ap/skills/index.htm) "Regional Skills and Employability Programme in Asia and the Pacific" and Department of Labour and Employment website (www.dole.gov.ph/, accessed 26 November, 2008).

The Bureau of Local Employment, under the Department of Labour and Employment formulates employment programmes designed to benefit disadvantaged groups and communities. The Bureau has the following programmes/projects²²:

- The Public Employment Service Office or PESO is a free of charge multi-employment service facility. PESO's objective is to achieve full employment and employment equality for all, by strengthening and expanding the government's existing employment facilitation service machinery, particularly at the local level.
- PHIL – Jobnet is an automated job and applicant matching system which aims to fast-track jobseekers search for jobs and employers search for manpower.
- The Quick Response Team (QRT) of the Department of Labor and Employment (DOLE) assists workers who were displaced by closures and retrenchments of industries/companies. Each regional QRT provides employment re-entry opportunities and assistance nationwide. As a safety net measure, the QRT is a calibrated service delivery aimed at helping workers cope with the adverse effects of globalisation and trade liberalisation.
- The Computerized National Manpower Registry of Skills (CNMRS) is a repository of computerized information on available manpower and their corresponding skills. It is developed and maintained by the Department of Labor and Employment for manpower development and employment promotion, particularly on job/manpower search assistance and placement for wage employment, local and overseas, and for non-wage employment.
- JOBS FAIR is an employment facilitation strategy aimed to fast-track the meeting of jobseekers and employers/overseas recruitment agencies in one venue on a specific date to reduce cost, time and effort - particularly on the part of the applicants. This is open to all unemployed, skilled and unskilled workers, recent college graduates, graduates of training institutions, displaced workers and employees seeking advancement. During the Jobs Fair, applicants select vacancies suited to their qualifications and employers may well interview and hire qualified workers on the spot. Several agencies are invited to provide assistance for the self-employed and for training.
- The Special Program for Employment of Students (SPES) develops the intellectual capacities of children from poor families, with the objective of harnessing their potential for the country's well being. Specifically, the program aims to help poor but deserving students pursue their education by providing or augmenting their income by encouraging their employment during summer and/or Christmas vacations. *Source:* Bureau of Local Employment, www.ble.dole.gov.ph/, accessed 26 November, 2008.
- The Work Appreciation Program (WAP) provides youth with the opportunities to appreciate work and develop proper work ethics by exposing them to actual work situations. In this regard, they will be able to gain experience in work environments provided by the sponsoring companies.

²² *Source:* www.ble.dole.gov.ph/, accessed 26 November, 2008.

- The Kasanayan at Hanapbuhay Program (KasH) is an apprenticeship and employment program. It was adopted as a bridging mechanism for new entrants to the labour force, allowing them to acquire the basic skills and work experience required by employers. Generally, the Kasanayan at Hanapbuhay program shall ensure the availability of qualified skilled workers based on industry needs and requirements as well as facilitate and speed up the matching of jobseekers with available jobs.
- TULAY project assists with the integration of persons with disabilities into mainstream society through training and employment.

The Technical Education and Skills Development Authority (TESDA), a key initiative established in 1994, provides direction, policies, programmes and standards towards quality technical education and skills development. Technical vocational education and training (TVET) is managed by TESDA to coordinate and supervise technical education and skills development in the country and serves as the blueprint for technical vocational education and training in the Philippines. Tek-Bok prioritizes the recruitment of the underemployed, helps to bridge communities to the domestic and global markets, and offers itself as a major human resource investment agency for Filipino workers; and TVET provides the critical skills required by the labour market in the right quality at the right time.²³

Two training initiatives are of interest (Urdaneta, 2008):

1. The Training for Work Scholarship Project (PGMA-TWSP) ensures that skills training programmes produce the best quality workers for job openings in industry. The scholarship -, either full or partial - pays for the training costs for finishing courses in the business process outsourcing industry: call centre, medical and legal transcription, animation, software development, and other industries with critical skills requirements. The project hopes to provide skills and competencies for job seekers through appropriate training programmes that are directly connected to employment in existing jobs, and to empower private education and training institutions to offer relevant training programmes that meet job requirements (Urdaneta, 2008).
2. The Dual Training System (DTS) is a mode of training delivery which combines theoretical and practical training. It is called dual because learning takes place alternately in two venues: the school or training centre and the company or workshop. Under the DTS, the school and workplace share the responsibility of providing trainees with well-coordinated learning experiences and opportunities. The general and occupation-related theoretical instruction provided by the school is complemented by on-the-job training in the workplace. DTS has proven to be an effective training modality, as it is now being implemented by various training institutions and companies in Cebu.

²³ Source: ILO, "Regional Skills and Employability Programme in Asia and the Pacific" (www.ilo.org/public/english/region/asro/bangkok/skills-ap/skills/index.htm, accessed 26 November, 2008) and Urdaneta, 2008.

Brunei Darussalam

According to the Labour Department²⁴ Brunei Darussalam's small population cannot provide all the manpower needed to implement all of its development projects. It continues to allow skilled as well as unskilled foreign workers to work in Brunei, notably in the construction sector. As most of the citizens and permanent residents are employed in the public sector, the Labour Department continues to promote and ensure more local employment in the private sector. Policies and strategies include:

- Policies
 - On Localisation Program - promoting and ensuring more local participation in private sector employment.
 - On foreign workers - to facilitate the presence of immigrant workers in the development of Brunei Darussalam so long as their presence does not jeopardise the job opportunities available to the locals and disrupt the way of life and socio-culture of Brunei people.

Strategies:

- To enhance career development of labour officers through a proper Career Development Programme.
- To provide adequate training for officers and staff to face future challenges.
- Full utilisation of IT in processing applications and management.
- To enhance career development of locals by improving the capacity of the Local Employment Centre.
- To upgrade the capabilities of Workmens' Compensation, Health & Safety Section in line with the present working environment / industry.
- To inculcate the sense of sensibility among the employers by giving more information/insights regarding the utilisation of a foreign workforce.
- To improve the capability of Law Enforcement Section.
- To make labour market information available to the public.
- To evaluate the effectiveness of the law and regulations of the Labour Act.

Cambodia

Although the rate of poverty continues to decline in Cambodia, rural poverty remains high at 40%. Eighty-five percent of the population is in the informal economy, mostly in agriculture, forestry, and fishing and in small and micro enterprises. The formal sectors of garments and tourism are the main engines of growth, with garment manufacturing accounting for 85% of Cambodia's exports and employing some 350,000 workers, mostly women. Better Factories Cambodia, which works with the garment industry, is a unique programme managed by the ILO and supported by the government, trade unions and

²⁴ Source: www.labour.gov.bn/index.htm

the industry employers' association. The ILO's Decent Work Country Programme (DWCP) provides the basis for the ILO's contribution to the Government's Rectangular Strategy for Growth, Employment, Equity and Efficiency and the National Strategic Development Framework. The DWCP addresses a wide range of issues, including skills and human resource development, youth and women's employment, the informal economy, SMEs, social protection, industrial relations and social dialogue, and labour market governance. The current DWCP (2008-2010) focuses on three priority areas which also reflect the ILO's commitment to the United Nations Development Assistance Framework (UNDAF).

These areas are²⁵:

1. Skills development for productive employment.
2. Labour governance and rights.
3. Social protection for targeted groups.

Indonesia

Indonesia has a market-based economy in which the government plays a significant role. According to the ILO (2008b:10), the Indonesian Ministry of Manpower and Transmigration, in collaboration with the Ministry of National Education and the Indonesian Chamber of Commerce and Industry had begun the implementation of a "3-in-1" programme involving the strengthening of training, certification and placement. Through this programme, the government is seeking, amongst other measures, to revitalize vocational training centres and provide subsidies to private training providers. The programme is also seeking to improve the ability of the national certification system and the National Profession Certification Agency (BNSP) to set standards of excellence in 12 professions, undertake competency tests and issues certificates. To assist with placements, both domestic and overseas, the programme is supporting vocational training centres and regional and local manpower offices to provide information to trainees and jobseekers on job openings and labour market information.

Thailand

The significance of Thailand's auto industry provides an example of skills upgrading in the manufacturing sector. Since the 1960s, Thailand has become the centre of Southeast Asia's automotive industry, employing about 120 000 people in the sector. Due to a nationally implemented cluster policy (cf. Lecler 2002), most of the companies in this sector, including BMW, are located to the south of Bangkok, in the Rayong and Samutprakarn provinces of Thailand's Eastern Seaboard. Indeed, while local content regulations existed until the year 2000, the bulk of value-added parts are not manufactured in the region, but rather brought in from abroad. Since the market is not yet big enough, low production volumes do not allow for economies of scale by establishing a production site, and therefore completely knocked down (CKD) assembly with comparatively little regional value-added prevails. "BMW's entry into East Asia is potentially very significant both for the company itself and for the region, particularly Thailand. For a BMW car, about 40% of value added is achieved through local content, but this means production and sourcing within ASEAN countries, therefore the value-added within the Thai auto cluster is lower than the 40% figure suggests. Furthermore, the regional assets in the south of Thailand do not necessarily match all the needs of car manufacturers like BMW, as the level of skills among the workforce and organizational sophistication have yet to reach the required standards. The fact that most of the suppliers are partly or wholly owned by foreign companies reflects the problems in upgrading the industrial base and transferring skills and technology to local companies. There have been considerable initiatives by the Thai government

²⁵ Source: ILO, www.ilo.org/asia/lang--en/index.htm, accessed on 9 December 12, 2008.

to adapt to the changing strategic needs of manufacturers like BMW and to participate more strongly in their value-added networks (see also Lauridsen, 2003; Techakanont, 2003). In addition, foreign assemblers (BMW being no exception) train their workforce either in-house or put them on training courses within the parent company abroad. However, transfer of know-how to domestic suppliers is still rather limited (Coe et al., 2004).

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