Globalization, Adjustment and the Challenge of Inclusive Growth

Boosting Inclusive Growth and Industrial Upgrading in Indonesia, the Philippines and Vietnam

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Foreword

The contributions in this volume result from a research project entitled *Globalization, Adjustment and the Challenge of Inclusive Growth* undertaken by researchers from Vietnam, Indonesia and the Philippines with support from the International Development Research Centre (IDRC) of Canada. The research focused on particular economic adjustment issues facing these three Southeast Asian countries in the context of globalization, economic integration, and intense market competition from East Asia, notably China. The studies that emerged from this project are unique in that they took not only a comparative look at the adjustment lessons but, more importantly, addressed fundamental social questions around the dynamic tensions between growth and inclusiveness - such as how industrial relations, labour regulations, and institutions can be shaped to smooth the adjustment process while at the same time facilitating worker welfare.

The findings from Vietnam, Indonesia and the Philippines reveal different contextual experiences and sets of policy responses to external shocks which have affected employment and output. But there are also some interesting commonalities that underline the importance of skill upgrading, social partnerships to promote labour welfare, and proactive labour legislation, which provide the right kinds of incentives for inclusive growth. The policy implications that emerged are equally clear: the need to dramatically and urgently invest in skilling up and human capital formation; the need to invest in disadvantaged labour; the need to invest in social partnerships between management and workers; and the need for more effective regulatory regimes, flexible labour market rules, and the protection of labour, especially the disadvantaged. However, as the studies show, it is not only better policy formulation that is needed, but a commitment to implement a cohesive policy framework.

IDRC is committed to supporting research that is innovative and generates new knowledge which can contribute to positive change. The Centre also places emphasis on research that adds to public policy debate on generating inclusive economic growth. This collection of studies significantly adds to the stock of knowledge on economic adjustment and the challenges facing developing countries in terms of making globalization work for the poor. It also succeeds in posing important questions for policy makers and other stakeholders including business associations and labour organizations on policy actions and institutional arrangements for promoting a climate for investment. These studies will appeal to students of development studies in Southeast Asia and hopefully influence the way policy makers and captains of industry address the challenges of inclusive growth and poverty reduction.

Evan C. Due, Ph.D
Senior Regional Program Specialist
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Foreword

It is with great pleasure that the De La Salle University-Angelo King Institute (AKI) presents this monograph—a product of one of the research thrusts of the Institute from the recently-concluded Globalization, Adjustment and the Challenge of Inclusive Growth Project funded by the International Development Research Centre-Canada (IDRC).

The Project was a two-year initiative, undertaken between January 2007 and September 2009. The coordinating institution was the De La Salle University-Angelo King Institute, which also carried out the research for the Philippines. It was supervised by Dr. Winfred Villamil of AKI. Research was carried out in Indonesia by the Centre for Strategic and International Studies (CSIS), headed Dr. Dionisius Ardiyanto Narjoko (2007-2009) and Ira Setiati (2009), and by the Central Institute for Economic Management (CIEM) in Vietnam lead by Dr. Vo Tri Thanh.

With this project and the publication of this monograph, the Angelo King Institute is contributing to a growing literature on how economies adjust as they become more integrated with the rest of the world. The various research papers produced chronicle the experiences of the Philippines, Indonesia and Vietnam on how their economies were affected by the impact of globalization as well as the challenge of inclusive growth.

The project's integrative report entitled Globalization, Adjustment, and the Challenge of Inclusive Growth: Boosting Inclusive Growth and Industrial Adjustment in Indonesia, the Philippines, and Vietnam is the centerpiece of the publication. As an introduction, the report brings forth the importance of the research project funded by Canada's International Development Research Centre. It mentions that the research focuses on selected issues of importance with regard to making globalization work for workers, firms, and inclusive growth and industrial competitiveness. In particular, the report highlights the contrasting as well as common experiences in Indonesia, the Philippines, and Vietnam. Indeed, Indonesia and Vietnam saw similar patterns of development while Indonesia and the Philippines bore the brunt of severe macroeconomic crises in their recent histories. A review of related

literature is also presented, which looks into the relationship between globalization and: (i) inclusive growth, (ii) regional integration and the role of China, and (iii) the labor market and inclusive growth. A framework for furthering inclusive growth in East Asia is then shown.

The bulk of the report provides an exposition on the foundations and the challenge of inclusive growth by synthesizing the various research papers of the project. The discussion begins by providing a pathway toward sustained, high economic growth. What follows is a discussion on the experiences and insights of the three Southeast Asian countries with regard to employment generation. The results here tie in with the common observation that a disadvantaged class has emerged in these countries. This result is glaring considering that these countries actually saw an uptide in economic growth over the past 20 years.

This section is followed by a discussion of globalization and its implications on employment and industrial relations. Here, what is conspicuous is the trend towards social partnership when it comes to industrial relations. The report concludes by providing a hefty set of policy implications.

The integrative report is followed by summaries of the six studies done per country. The topics for each study are as follows:

1. Trade, Growth, Employment, and Wages
2. The Incidence and Character of Disadvantaged Employment in the Philippines
3. Globalization, Adjustment, and Employment Drivers
4. The Challenge of Firm–Level Adjustment, Productivity and Workers' Welfare Under Globalization: Case Studies, Insights, and Policy Implications
5. Industry Churning, the Labor Market, and Workers' Welfare
6. Industrial Relations, the Regulatory Environment, and Inclusive Growth

We hope that researchers and policy makers alike will find this monograph useful.

Tereso S. Tullao, Jr., Ph.D
Director
DLSU-Angelo King Institute

Preface

It is a pleasure for me to write the preface of this monograph. In the two years since the IDRC-funded project on which this monograph is based was finished, I have had the opportunity to think a bit more on the issues of globalization, regional integration and inclusive growth, albeit primarily from a wider regional perspective given my current research efforts at the Economic Research Institute for ASEAN and East Asia (ERIA) based in Jakarta, Indonesia. Overall, I have come away with guarded optimism, but believe that so much remains to be done in order to ensure inclusive growth even as the countries in the region become more deeply integrated with one another and with the rest of the world.

Globalization and regional integration have been linked first and foremost to trade (and to a less extent, investment) liberalization. Indeed, the first impulse in both the multilateral and regional negotiations has been on liberalization while issues of trade and investment facilitation are secondary and those of other supporting policies (like infrastructure) given less prominence in such negotiations. Yet, arguably, in the most successful economic experiment of all time; i.e., China, and to a less extent, in the successful Vietnam experience, it is the supply side capabilities and facilitation considerations that seem to shape the pace of trade liberalization in recent years. This is of course not a cut-and-dried liberalization versus facilitation issue. This is all a matter of degree in the liberalization bias, away from liberalization as panacea and towards measured liberalization shaped in part by supply side considerations with a greater focus on improving the trade and investment facilitation regime in a country.

The intellectual underpinning for the primary bias for liberalization stems from the international economics tradition, with a greater focus on movements along the production possibilities frontier. In this model, trade liberalization necessarily improves overall national welfare (from an efficiency perspective) but different households are impacted differently so much so that complementary compensatory measures need to be undertaken in order that liberalization benefits virtually all citizens.

In contrast, the intellectual underpinning of the primary bias for supply side factors and facilitation can be anchored on development economics, specifically a redefinition of the Arthur Lewis "unlimited supply of labor" model. Fundamentally, the development economics a la the Lewisian "unlimited supply of labor" perspective is a movement toward the production possibility frontier. In the developing world, factors are not fully employed because there are structural and institutional constraints; hence, developing economies are inside the production possibility frontier. The original Prebisch developmental extension of the Lewisian model is to artificially raise the returns to capital in manufacturing via import protection in order for the manufacturing sector to grow and absorb the surplus labor from agriculture. This is the essence of the industrial development strategy of Latin American countries and the Philippines in the 1950s which, as history has shown, has been a failure. The China "model" is to redefine the developmental extension of the Lewisian model by raising the returns to capital (e.g., through greater internal mobility of labor, subsidies in infrastructure and land development as well as an improved environment for doing business and much improved flow of goods through customs) and measured reduction in trade and investment barriers, resulting in deeper and more effective engagement of the economy with the rest of the world. The logical end of the process is of course liberal trade but with great infrastructure, effective trade and investment facilitation, and support policies and institutions, similar to the cases of Singapore or Hong Kong. Results of studies at ERIA show that a number of ASEAN countries are way below Singapore and even China in terms of investment facilitation, trade facilitation, and logistics effectiveness. It may be noted that effective investment and trade facilitation for a number of ASEAN countries would entail policy reforms, institutional upgrading, much lower incidence of corruption, and much improved inter-agency coordination; in short, much improved governance.

The discussion above is relevant because it provides two somewhat different frames at which the issue of globalization and inclusive growth can be approached. Arguably, the developmental perspective is more amenable to the embrace of the pursuit of inclusive growth in the context of globalization as compared to the international economics perspective. This is because the former takes much greater emphasis on the specific characteristics of the domestic economy in the shaping of the country's trade liberalization process.

As the papers in the book present, inclusive growth is not well served by globalization if there are significant factor distortions, institutional or infrastructural constraints, or macroeconomic risks. Thus, the imposition of very tough new labor laws in Indonesia in the early 1980s led to the dramatic reduction in the employment elasticity of Indonesia's economic growth, higher unemployment rate and poorer performance on poverty reduction as compared to the early 1990s. Macroeconomic and political risks plus infrastructural bottlenecks weighed down heavily on the Philippine investment attractiveness, leading to the decline in the country's investment rate in the late 1990s and 2000s despite the significant rise in the national saving rate. The net effect has been a sluggish growth in better paying jobs and persistent high poverty incidence despite some uptick in the average economic growth, as the weak investment rate led to industrial hollowing and poor industrial upgrading.

The Philippine and Vietnamese experiences suggest that a high overall employment elasticity of economic growth is not sufficient to induce inclusive growth. The quality of growth (e.g., higher employment growth in better paying industrial jobs as compared to agricultural or retail trade jobs) in addition to consistent robust economic growth is also important. Higher and better quality jobs need investment. Thus, substantially raising the investment rate is the most important policy and economic strategy challenge for the Philippines and to some extent Indonesia. Despite some improvement in the investment inflows in 2010 in the Philippines, the numbers remain paltry in comparison with Vietnam and even Indonesia. The long and difficult economic adjustment process in the Philippines has led to a transformation of the industrial relations environment in the country from one that was highly contentious in the late 1980s to a more benign environment and growing incidence of social partnerships in the latter 2000s. This may well be an important investment plus point for the country, given the relatively very favourable evaluation of foreign investors on the quality of Philippine labor. At the same time, given the comparatively high wage rates in the country vis à vis Vietnam, Indonesia, Cambodia or Bangladesh, the Philippines would have to invest more on maintaining and even improving the quality of its labor force in order to improve its investment attractiveness in the more skilled labor intensive industries.

The Philippine experience suggests that labor market institutions do evolve endogenously albeit slowly and painfully in a sluggish economy. Despite some disquiet on the labor front, the Vietnam experience suggests that strengthening labor institutions and industrial relations is easier undertaken during periods of high employment demand. Thus, for the Philippines and to a less extent, this goes back to the need for significantly higher investment rate and therefore economic growth rate and labor demand. And it is the consistent high demand for remunerative labor that will reduce the number of disadvantaged workers in the country, who at present are primarily the underemployed and the employed but poor workers. The papers in the book indicate that the pursuit of inclusive growth in the context of deeper economic integration with the rest of the world is not easy, especially where the adjustment challenges rest fundamentally on either reducing the real wage rate significantly or substantially raising labor productivity in order to just maintain let alone improve the country's international competitiveness. But the pursuit must continue nonetheless, because therein lies an important key to ensuring a more stable society and growing economy.

In closing, I would like to thank the International Development Research Center (IDRC) for its unstinting support of the DLSU Angelo King Institute, the Center for Strategic and International Studies (CSIS), Jakarta, and the Central Institute for Economic Management (CIEM), Hanoi for their cooperation, and all the members of the research team for their dedication. Lastly but equally important, this monograph would not have been possible without the hard work of Bombit Largoza and Booby Borromeo. To them, I say maraming, maraming salamat!

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Globalization, Adjustment and the Challenge of Inclusive Growth: Boosting Inclusive Growth and Industrial Upgrading in Indonesia, the Philippines and Vietnam

Ponciano S. Intal, Jr. and Miguel Roberto V. Borromeo

I. Introduction

Inclusive growth means broad based growth that benefits the widest number of people, with special consideration to the marginalized or disadvantaged. Government policies and interventions, as well as market dynamics, largely determine the extent of inclusiveness of the economic adjustment and growth process. Economic actors, especially the business sector, also play significant roles in the degree of inclusiveness of the growth and adjustment process. Nonetheless, inclusive growth appears to be an "alien" concept to business leaders in the Association of Southeast Asian Nations (ASEAN). The discussion among Southeast Asian business leaders on ASEAN (and East Asia) economic integration has mainly focused on trade barriers, trade facilitation issues, logistics and overall investment climate. This is not surprising as these issues are at the heart of economic integration. However, there is barely any discussion on employment, equity, and poverty impacts of regional economic integration and of globalization as primary concerns and not mere corollary concerns. Inclusive growth should not be an incidental impact of economic integration. Rather, the pursuit of inclusive growth should help shape the design of the package of policies and programs for the economic integration process.

The quickening pace of globalization, greater East Asian economic integration, and relentless market competition internationally mean that the adjustment and "re-engineering" of firms and industries is not just a one-shot deal but a continuing process and challenge. This means that policies, institutions and mechanisms must be facilitative of firm and industry adjustment and re-engineering. This has tremendous implications on the labor market and employment, through which the social outcomes of globalization are primarily generated. In short, the continuing firm and industry adjustment requires that the workings of the labor market and the nature of the industrial relations environment facilitate smooth adjustment and ensure, at the same time, favorable social outcomes for the process. Moreover, a good deal of the labor force in many developing Asian countries is not employed in medium to large enterprises. Indeed, the preponderant part of labor and production is in micro- and small enterprises and in small farms. These are sectors that the formal labor and industrial regulatory environments barely touch. Yet, inclusive growth under globalization necessitates a purposeful program of action that takes into consideration the whole range of producers and firms on the one hand and the heterogeneity of workers and differing – although related – labor markets on the other.

As indicated above, the most important links between economic integration and globalization, and human development and inclusive growth, are to be found in the labor market. There is overwhelming evidence that the most reliable way out of poverty is access to a stable wage employment. Making globalization and economic integration work for people is therefore, from this perspective, largely about increasing the demand for labor, making them more productive, and generating increases in wages consistent with the rise in labor productivity. To do this means developing industries that can absorb labor, investing in public goods (infrastructure, research and development, trade facilitation) that will increase the productivity of agriculture (as the key wage good that relies on the efficacy of public investment) and that will reduce the cost of doing business, investing in education and workers training, and improving the quality of the workplace. Likewise, the chief risks of globalization and economic integration to human development are also found in the labor market, especially the redundancies and the layoffs from firms unable to thrive in import competition. Another risk is the increase and/or volatility of prices of food and other necessities that adversely affects the poor.

The emergence of China as a world manufacturing powerhouse and the growing economic integration efforts in the East Asian region put forward the importance of industrial upgrading in Southeast Asia. China's low labor cost (although fast rising in the coastal provinces), high productivity and sharply improving infrastructure have been inadvertently pushing the industries in middle income

Southeast Asian countries to move up the value chain –toward higher quality and more skilled labor intensive operations, segments, and products. (At the same time, low-income and low-wage Southeast Asian countries, like Cambodia, are in a fortuitous position to generate spillover investments as wage in coastal China rises.) This ongoing process of industrial upgrading is facilitated in large part by multinationals as they redefine production networks in East Asia. Governments have also contributed to the industrial upgrading process by promoting an attractive investment climate and through pro-active government support policies (e.g., infrastructure, R&D support, etc.). Industrial upgrading successes like Singapore, Malaysia and Thailand have favorable investment climates and robust economies. Countries like the Philippines and Indonesia that have less favorable investment climates, fragile economies, and more constrained government budgets for pro-active support policies have been less successful in their industrial adjustment. Meanwhile, Vietnam's economic performance since the 1990s has been spectacular, posting one of the highest average growth rates in the world during the period. But Vietnam is still a low income country that is in transition. It continues to strive for industrialization and deeper economic integration with the rest of the region as it faces the attendant structural adjustment challenges. Nonetheless, the challenge of industrial upgrading is relentless because China, as well as Korea and Japan, is also changing rapidly. But at the same time, the continuing process of economic restructuring in East Asia offers opportunities in defining and strengthening niches and comparative advantages for successful adjusters.

The Philippines is a stark reminder that the social outcomes of the adjustment process attendant to increased economic integration and globalization leave much to be desired. On one hand, the Philippines appears to be a spectacular success in the dramatic shift of its exports structure – it probably being the East Asian country currently most dependent on technology intensive products, primarily semiconductors. On the other hand, the country's manufacturing sector has failed to generate employment and growth for the whole economy – recording one of the lowest shares of manufacturing to total employment and output in the region. Indeed, the share of manufacturing to total employment declined in the 1990s at the same time that the share of manufactured products dominated Philippine exports. This explains in part the country's failure to decrease poverty incidence, considering that the manufacturing sector tends to provide more remunerative wages than the informal sector in the services industry where a substantial increase in employment occurred.

Short run adjustment costs are inevitable even if in the long run globalization will be welfare enhancing overall, preferably for all. How a country is affected by globalization and economic integration depends on a host of factors, including the country's policies, quality of institutions, nature of regulatory environment, flexibility of labor market, etc. Trade and investment, for example, affect the domestic economy through several channels, including the terms of trade, firms and their responses to a more open economy, and households in their multifaceted roles as producers of goods and services, providers of labor services, and as consumers. Whether globalization and economic integration will improve or worsen the economic welfare of households depends on the changes in relative commodity prices and wages, changes in the demand for labor skills, and the flexibility of factor markets (i.e., labor, capital, land).

One stylized fact on the nature and impact of globalization is that trade liberalization and the ensuing increased market competition have resulted to a higher "churn rate;" i.e., the rate of firm closures and entry. This is because the typical developing country has a wide dispersion of firms in terms of efficiency and technology. Trade liberalization leads to closures of the more inefficient firms that do not upgrade while at the same time encourages new firms to be established. For successful economies like Taiwan, this churning of firms is an important source of increase in productivity and is a motor to dynamic competition. However, in less robust economies, a high churn rate effectively leads to unemployment and poor social outcomes.

Another stylized fact about globalization is that foreign direct investment and foreign trade appear to be biased towards more skilled workers, which suggests that the increase in foreign investment underpinning globalization will lead to greater income inequality. This means that there is no inclusive growth. This also suggests that inclusive growth cannot rely primarily on robust exports and foreign investments. Indeed, industrial upgrading almost always

necessitates skilling-up, which leaves much of the region's labor force out of the picture. It is best to regard foreign trade as "handmaiden of growth." It is the robust economy, as reflected in robust foreign trade that is at the heart of facilitating inclusive growth. This is because a considerable part of the domestic economies of Asia consists in small producers for the domestic economy involved in domestically traded (e.g., agricultural products and product-differentiated consumer goods) and non-tradable goods and services (especially in construction). This sector is likely the employment destination for most of the unskilled labor in the East Asian countries. There is, of course, a symbiosis between the foreign trade sector and the rest of the economy, especially through the labor market, because high productivity growth in the foreign trade sector leads to wage pressures across the board, even in the non-traded sector as the Samuelson-Balassa thesis emphasizes.

In short, ensuring smooth industrial adjustment and at the same time engendering favorable social outcomes is not an easy task. Indeed, this invariably involves active engagement of the stakeholders in the labor market (i.e., labor, management and the government) in terms of refining the regulatory environment of the workplace, improving economic governance and the investment climate, and strengthening the cooperative mechanisms between labor and management toward productivity improvement and productivity sharing. Further, ensuring inclusive growth in the face of relentless domestic and overseas competition may require affirmative government interventions in order for the disadvantaged to reap the benefits of globalization and growth.

This research aims to expand the understanding of the challenges of inclusive growth in the face of increased economic integration and rising pressures for industrial upgrading in most of Southeast Asia. The research focuses on selected important issues in the task of making globalization work for workers and firms. In particular, it studies the prospects of inclusive growth and international competitiveness in three Southeast Asian countries: Indonesia, the Philippines and Vietnam. These three countries also provide interesting contrasts as well as common experiences that can help deepen the understanding of the process of economic adjustment and globalization. Both Indonesia and Vietnam, for example, experienced decade-long robust economic growth with dramatic reductions in poverty incidence (Indonesia in the 1980s and early 1990s, Vietnam in the 1990s and 2000s). In the same countries, the pattern of development is broadly similar – an initial robust productivity growth in agriculture followed by sharp growth of labor intensive manufacturing. Meanwhile, Indonesia and the Philippines experienced major macroeconomic crises (the Philippines in the early 1980s and late 1990s, Indonesia in the late 1990s and early 2000s). Both countries also experienced setbacks in formal sector employment and increases in poverty incidence as results. Of the three, the Philippines was the most hard-pressed to adjust. The country suffered significant reductions in employment in a number of manufacturing industries in the 1990s while it shifted towards the more capital-intensive and skilled-labor intensive products (e.g., semiconductors) and, in recent years, skilled labor-tradable services (e.g., business process outsourcing). Vietnam and Indonesia, however, also faced industrial adjustment pressures. The textile industry in Vietnam, for example, upgraded technologically, reduced its manpower, and substantially raised labor productivity in the 1990s. But the drop in textile employment was more than made up by the boom in the more labor-intensive garment industry, relying in part on the textile inputs from the Vietnamese textile industry and in part on imported fabrics.

The overriding concern of the research project is how can growth in the Southeast Asian (and East Asian) region be as broad-based and inclusive as possible at a time of greater economic integration and market competition in the region that increases the pressures for industrial upgrading. Some corollary questions are: What lessons can be learned from the experiences of industry adjustment and firm adjustment in Indonesia, the Philippines and Vietnam for policies designed to boost inclusive growth? What are the trade and development strategies that contribute to inclusive growth? How can the existing industrial relations environment, labor laws, and institutions be improved so that the industrial adjustment and upgrading process can be smoothened and the increase in workers' welfare facilitated? Included among the research project's output are policy recommendations for institutional strengthening and inclusive growth in the region. Hopefully, the project will help cement a consensus on the way forward for promoting inclusive growth and

industrial upgrading in Indonesia, Philippines and Vietnam, as well as for the whole ASEAN region.

II. BRIEF REVIEW OF LITERATURE

A. Globalization and inclusive growth

The fundamental concern here is that the sharply increased economic integration in the world as reflected in the multiple increases in international trade and foreign investment in recent decades appear to have marginalized quite a number of developing countries and to have led to rising intra-national wage and income inequality. The launching of the World Commission on the Social Dimension of Globalization in 2002 by the International Labor Organization is indicative of the high level of global concern with the rising international and intra-national inequality attendant to globalization and the need to promote national and international dialogues toward "…a more inclusive globalization process that is acceptable and fair to all" (Gunter and van der Hoeven, 2004, p. 2).

Inclusive growth is perhaps best appreciated in terms of its opposite, growth that is "excluding" (from the consumer market) and "concentrating" (of income and wealth) as described passionately by Sachs (2004):

> "Strongly segmented labour markets, which keep a large segment of the toiling majority confined to informal activities, or else condemned to eke out precarious livelihoods from small-scale family farming with hardly any access to social protection; and the feeble participation in, or outright exclusion from political life of large sections of population who are poorly educated, under-organized, and absorbed by the daily struggle for mere survival, with women, subjected to gender discrimination, being the hardest hit." (Sachs, 2004, p. 8)

The Commission on Growth and Development of the World Bank, headed by the Nobel Economics Prize winner Michael Spence, in its Growth Report: Strategies for Sustained Growth and Inclusive Growth, argues that inclusive growth must make "…citizens confident that they and their children will share in the benefits (of growth)" (World Bank, 2008, p. 27) and that the challenge for governments is to "...safeguard equality of opportunity and contain the inequality of outcomes" (World Bank, 2008, p. 62). Thus, inclusive growth is first and foremost linked to equality of opportunities and to equity in growth outcomes.

Fundamentally, inclusive growth is broad-based and pro-poor growth, i.e., growth with equity. Because the main asset of the poor is labor, inclusive growth is also pro-employment growth (See, for example, Felipe, 2005). In addition, since the majority of the poor in developing countries is in the rural areas and mainly relies on farming and fishing, inclusive growth is pro-agriculture and pro-rural development that will increase agricultural productivity (See Bolt, 2004). Further, given that labor productivity in the urban sector tends to be significantly higher than in agriculture, a critical element of robust growth is the shift of labor from agriculture to manufacturing and high value services. Bringing the rural sector to the rest of the world requires good infrastructure (See Ali & Yao, 2004). Indeed, for small open economies, it is good internal infrastructure that makes domestic producers in far flung areas competitive vis-à-vis imports in the major consumer markets.

The big question is how can globalization, with the attendant emphasis on competitiveness and international (also domestic) competition, be pro-employment and pro-poor? This section presents a brief review of the researches that explore the question of inclusive growth and the ramifications of globalization and East Asian regional integration on the labor market.

B. Globalization, regional integration and the China factor

There is no doubt that the pace of globalization has picked up in recent decades. While globalization is not new (an earlier wave came during the 1870-1914 period), what is remarkable about the recent wave of globalization is the marked rise in the role of the developing countries in its processes. The growth rate of developing countries is substantially higher than that of developed countries, and their export structures have shifted from primary exports to manufactured goods and services (Dollar, 2004). Underpinning this remarkable change

in the exports of developing countries is the rise of global production networks, primarily of multinational companies, that is facilitated by sharp declines in transport and communication costs, reduction of trade barriers, and improved customs processing (Dollar, 2004). International trade has, in recent decades, increasingly been driven by trade among affiliates of MNCs, benefiting the countries with large MNC investments and countries that are wedded into the MNC production networks (China, here, is an exemplar). However, the flow of investments into developing countries has been channeled towards a few favorites (See the UNCTAD world investment reports), with many in the sub-Saharan Africa barely touched by the marked outflow of foreign direct investment during the 1980s until the mid-1990s. This highly concentrated nature of MNC-linked and manufacture-based export expansion in developing countries explains in part the unequal impact of globalization on developing countries.

East Asia has been at the center of the recent globalization process. Poetically described in terms of Akamatsu's "flying geese," the flow of investment and technology from Japan and other developed countries to the NIEs –to Southeast Asia and China– has seen to the dramatic industrial restructuring and economic transformation of the region. East Asian intra-regional trade has grown greatly –continuously expanding with its share to total international trade at nearly 50 percent by 2003 (Akhtar, 2004). This is higher than the share of intra-regional trade during NAFTA's start. Much of the increase in intra-regional trade in East Asia has been in parts and components arising from the region's growing production sharing and production networks (See, for example, Ng and Yeats, 1999; Intal, 2006; Austria, 2006; Austria, 2004). The sharp rise in the growth of India in the past decade has led observers to consider the arc from Northeast Asia to Southeast Asia and to India as the new growth area, with Southeast Asia being the "growth bridge" between the two poles of large and fast growing economies (Roland-Holst, Verbiest & Zhan, 2005). Currently, India is only minimally integrated with East Asia, but India-East Asia trade is fast growing.

The rise of China has accelerated the dynamic resource allocation and international specialization in East Asia, complementing Japan, NIEs and Southeast Asia in the regional distribution of labor. These countries have moved up the skill and technology ladder, providing inputs to China's export-oriented, labor-intensive processing trade (Lall & Albaladejo, 2004). China is a net importer from East Asia and net exporter to the rest of the world. Thus, China's growth and export engine has in fact pulled up the rest of East Asia and, so far, has been an engine of export growth for the whole region.

But China's industrial restructuring and economic transformation are so fast and dynamic that they pose tremendous competitiveness challenges to firms in Southeast Asia. China is already globally dominant in low-technology manufactured goods, it is increasingly the supplier of choice for ICT equipment, and it has strong potential economies of scale in motor vehicles and automotive parts (Wattanapruttipaisan, 2005). These are the industries that are central to Southeast Asia's export growth during the past two decades. Roland-Holst (2002) claims that if China continues to liberalize and Southeast Asia does not follow suit and does not upgrade accordingly, China will significantly crowd out Southeast Asia's manufactured exports (including electronics) in third markets by 2020. Clearly, Southeast Asia has little choice but to step up. Consequently, ASEAN has accepted China's offer of an ASEAN-China Free Trade Agreement and the partnership has started with an Early Harvest Program. ASEAN is now engaged in a flurry of negotiations or discussions on bilateral and regional trade agreements with Japan, Korea, Australia-New Zealand, India, and the European Union. The essence of all of these negotiations is accelerated liberalization and globalization in the region.

C. Globalization, the labor market, and inclusive growth

There are two aspects of globalization that are of special importance with regard to the impact of globalization on workers and the poor. The first one, which is the common focus of interest in the literature reviewed in this section, is the trade liberalization - trade investment production channel. The other is the capital account liberalization - financial flows - macroeconomy linkage. The second aspect, although not the focus of this brief literature review, is nonetheless important because the greater capital mobility concomitant to financial liberalization under globalization tends to increase the incidence of macroeconomic crises. This, studies suggest, results in a significant decline in labor incomes and share that do not fully recover during

the subsequent economic recovery period (Diwan in Rama, 2003). In short, other things being equal, globalization in countries that are prone to macroeconomic crises can be expected to have less than satisfactory effects on workers and the poor. The policy concerns here are macroeconomic management and prudential regulation.

Rama (2003) finds that the globalizers among developing countries experienced almost double the wage growth of non-globalizers during the 1980s and the 1990s. Similarly, Dollar (2004) finds that the wave of globalization since the 1980s has led to the concentration of growth in developing countries that were the poorest in 1980, particularly China, India, Bangladesh, Vietnam. The two findings seem to indicate that globalization has in fact been pro-poor and pro-workers, suggesting that the weak wage and income growth performances of the non-globalizers can be explained by the fact that they are less open and less wedded to globalization.

While the general findings of Rama and Dollar are persuasive, the dynamics of the globalization-wages-poverty nexus is likely to be more complicated. Note that the time frame of these two analyses spans almost two decades, when the difference in the process of globalization could lead to different outcomes on wages and poverty reduction. It is interesting to note that for China, India, as well as Indonesia and Bangladesh, the process of globalization started in the 1980s (Vietnam's was in 1990s) with significant rise in agricultural productivity and incomes arising from agricultural market reform (the Green Revolution in India, Bangladesh, Indonesia). The agricultural "revolution" was soon followed by the rise in export-oriented, labor-intensive manufacturing (skill-intensive services in the case of India) after significant trade and currency policy reforms. This pattern of development and globalization process has been labor absorbing and wage increasing for the labor abundant countries, leading to substantial reduction in poverty.

The above pattern differs substantially from the Latin American experience of import substitution, population concentration in the urban areas, and a rural sector geared toward large scale agricultural plantations and mines. It is generally acknowledged that there was sharing of rents between the protected industries and their workers from import protection. Trade liberalization eventually reduced the rents thereby creating pressure for wage reduction as what happened in Mexico after liberalization (Rama, 2003). Moreover, unlike many Asian countries, Latin American countries tend to be more natural resource abundant and less labor abundant. The result is similar to the Dutch disease problem, so much so that it is the more skill-intensive products and services that become competitive. Studies indicate that liberalization in Latin America has led to greater wage inequality (Wood in Rama, 2003).

These suggest that broad patterns from cross-country analyses need to be nuanced by country-specific or region-specific analyses. Thus, for example, the findings of a Kuznets-type relationship between globalization and wages of an initial decline and an eventual increase in wages (Corley, Perardel & Popova, 2005) do not quite capture the two contrasting outcomes between the successful Asian liberalizers and the Latin American experience.

Studies have shown that liberalization and globalization lead to greater firm "churning" or the rate of firm exit and entry. Firm exits can be accounted by their large productivity dispersion before liberalization. This led to failures of low productivity firms that did not adjust to greater import competition. But the exits are offset by new entrants as trade and investment liberalizations effectively reduce the barriers to entry. While the net turnover rate of firms is usually low, the increased incidence of firm exit and entry can be the vehicle for greater overall productivity growth as the Taiwan experience suggests. At the same time, studies also indicate that firm churning is affected more by business cycles rather than by trade and investment liberalization. Since there are social costs to firm closures, the issue of macroeconomic management becomes relevant. (World Bank, 2001; Hallward-Driemeier, 2001.)

Firm churning has corresponding effects on the labor market in terms of job losses and job gains. Job destruction occur from the closures or streamlining of domestic firms (especially the heretofore protected import-substituting firms) and from government streamlining of bureaucracies and of government corporations – both tending to occur in developing countries, together with trade liberalization, as parts of broader economic reform programs. Job creation occurs from firm entrants, especially from direct foreign investments and

export processing zones. Studies indicate that while the overall industry data on net job losses or gains may be small, firm level data show large labor turnovers as workers transfer between jobs and firms within the industry. It is noted that the new hires may have a different demographic profile (i.e., female, young, literate) from laid-off workers (i.e., male, middle aged, unskilled, unionized), thereby creating social costs. Also, there may be a lack of synchronization between job destruction and job creation, resulting in high frictional unemployment (See Rama, 2003).

It may be useful here to differentiate between a high rate of labor churning arising from voluntary exits and transfers (an indication of a tight but flexible labor market similar to the Taiwanese case in the 1970s) and labor churning arising primarily from involuntary lay-offs and new hires from new investors. The latter can lead to high social toll and frictional unemployment if the overall economic performance is not robust and the investment climate leaves much to be desired. Because high labor turnover can have high personal and social costs, there can be significant opposition to liberalization and globalization from those who would be adversely affected, such as the unionized workers in protected industries. Rama (2003) presents some recommendations to reduce the cost of globalization and of job losses that include both labor market (compensation packages for redundant workers) and non-labor market interventions and policies (education and fiscal policy).

Two other points are worth noting with respect to the impact of globalization on wages and poverty. The first is that globalization has led to gender gap reduction in wages. This is because there is a preference for women workers in manufacturing particularly the fast growing products, like electronics, in international trade. This is very important especially for countries where bias against women in the sphere of education and of labor is substantial. The other point is the increase in the returns to education and the premium on labor skills; that is, globalization appears to be skills-biased. This implies that globalization will likely lead to increased wage inequality and therefore it is prejudicial to the poor. The premium on education however is likely to decline over time as more people invest in education and the supply of educated and more skilled young people go into the market place (Rama, 2003). Nonetheless, the sharp rise in international trade in the skill-intensive products, like semiconductors and other electronics, automotive parts, and business services, does indicate that the commodity composition of international trade has indeed become more skill-biased. As such, a concerted effort to increase the educational attainment or skill of the poor becomes a critical component of any program for inclusive growth.

The Growth Report (2008) frames the critical role of the labor market as the key channel for globalization's social impact more forcefully through its claim that "getting the labor market right is vital to both the economics and politics of growth." Labor market conditions and regulatory regimes must not block segments of the labor force from employment and from enjoying the benefits of economic advance. Otherwise, they might withdraw their support from the government's policies and programs, and overall growth strategy. Getting the labor market right entails the increasing of labor mobility and "defending workers against exploitation, abuse, underage employment, and unsafe working conditions." Danuta Hubner, a member of the Commission on Growth and Development, asserts that "sustained growth needs well functioning labor markets... [and] the right approach is not to protect jobs in existing industries, but to protect employment by giving people training and retraining...[t]his kind of mobility is absolutely essential." (Growth Report, 2008, p. 45).

III. CONCEPTUAL AND THEORETICAL FRAMEWORK

This section discusses the general framework for boosting inclusive growth in Southeast and East Asia and the framework of analysis of the whole research project.

A. Framework for boosting inclusive growth in Southeast and East Asia

There is no doubt that Southeast and East Asian region remains the most dynamic region in the world. Moreover, the World Bank resident representative in the Philippines Joachim von Amsberg claimed in his speech at the Philippine Business Conference in 2006 that the drivers for growth in the region are the rapid regional integration and global integration. This is in consideration of the

fact that more than half of Southeast and East Asian trade is intra-regional trade. This is accompanied by a boom in intra-industry trade, economies of scale and innovation, and deepening financial foundations for risk-taking. Clearly, each country in the region needs to be wedded to the regional growth bandwagon to fully benefit from the growth engine. At the same time, it is a continuing challenge for firms to remain competitive and for governments to ensure that the growth process be inclusive or that the poor benefits from it.

The framework for furthering inclusive growth entails the following:

i. *Exploring opportunities for greater production linkages and market niches in the international and regional markets that allow for technological development and for promoting comparative advantage*. This means ensuring a favorable investment climate, easier flow of goods and services through improved trade facilitation and lower trade barriers, and improved information on the changing market and production landscape in the region;
ii. *Promoting increased domestic firm linkages with the international production networks, with domestic firms in national production networks and clusters, and the robust growth of the domestic economy. This entails high domestic savings and investment*. It also means increased domestic market integration that will entail improved domestic infrastructure that, the Asian Development Bank emphasizes, is critical for inclusive growth;
iii. *Promoting smoother industrial adjustment for improved productivity growth that leads to improved welfare of workers*. This is particularly important for the trade sector as the relentless market competition demands increasing productivity in the face of tighter margins for firms. This will involve strong cooperative mechanisms and favorable industrial relations climate between labor and management toward productivity and productivity-sharing on the one hand, and improving the work environment on the other. This also involves refining the labor market regulatory regime that aims to attain a happy balance between flexibility and rigidity acceptable to both workers and firms;
iv. *Facilitating industrial upgrading and inclusive growth*

through human capital investment. As the production of goods and services become more skill-intensive and as industrial upgrading pressures grow, inclusive growth over time demands the skilling-up of workers and improving their educational access and attainment. Workplace training and wider access to good quality education are central to achieving the challenge of improving human capital;

v. *Facilitating the allocation of resources for employment drivers, including emerging sectors in the economy*. Of special importance are the labor-intensive tradable services such as tourism and business process outsourcing. Resource-based industries that have the potential to provide remunerative incomes to poor upland farmers and rural folk also deserve special attention because inclusive growth involves giving special consideration to the poor located at the fringe of domestic and international commodity markets;

vi. *"Getting the labor market right"* (Growth Report, 2008, p. 48) *by preventing constraints on labor mobility without sacrificing the protection of workers against abuse and unsafe working conditions*. This is also achieved by preventing structural conditions that generate dualistic labor markets and by raising the potential of labor across skills through investments in education and workers training and retraining; and finally

vii. *Ensuring an attractive investment climate and a stable macroeconomy*. Even a casual look at the experiences of the countries in the region will show that those countries that have succeeded in attracting very large foreign investments and that maintained stable macroeconomic regimes are the same ones that succeeded in generating robust economic growth, employment, and minimized the cost of industrial restructuring. To a large extent, an attractive investment climate and stable macroeconomy are the sine qua non to inclusive growth.

To summarize, boosting inclusive growth and at the same time deepening the economic linkages among Southeast and East Asian countries entails further strengthening the linkages (trade, investment, technology) of the export sectors in the region, widening the reach of the regional production networks that are at the heart of regional intra-industry trade by expanding the local production

networks, reducing the adjustment costs and smoothening industrial upgrading by promoting cooperative labor-management relations, investing in people and workers and improving the regulatory regime in the labor market, and effectively managing intra-regional labor mobility. Underpinning all of these is the maintenance of robust investment climate and a sound macroeconomic environment.

B. Framework of analysis on industrial adjustment and inclusive growth

The earlier discussion argued that a wide range of policy and program initiatives is needed in order to ensure that economic integration and industrial upgrading are compatible with inclusive growth. The research project cannot is unable to adress all the research issues that underpin the policy demands of achieving inclusive growth and competitiveness as outlined above. The project focuses instead on a narrow set of issues related to industrial and firm adjustment, and the industrial relations environment of the resultant labor market churning.

As discussed above, the growing economic integration and increasing market competition in the region has led to the increase and continuing pressure for adjustment and upgrading of industries and firms, most especially in Southeast Asia in view of the dynamic transformation of China (and, increasingly of late, India). The Philippines and, to a lesser extent, Indonesia and Vietnam, also face the pressure for inclusive growth. The Philippines has the highest incidence of poverty among the major economies of Southeast and East Asia. Together with Malaysia, it also has one of the most unequal distributions of income in the region. Moreover, its manufacturing sector, and the concomitant employment in manufacturing, has been hard-hit by trade liberalization. Thus, the twin challenges of inclusive growth and industrial adjustment for competitiveness are most acute for the Philippines.

A key catalyst for industrial adjustment and upgrading is the substantially rising unit labor cost relative to competition, arising either from higher wages and/or poorer labor productivity and growth performance. Industrial adjustment and upgrading primarily involves three major courses of action. The first is to reorganize the industry to attain greater economies of scale where feasible. But this generally means more capital intensive operation with likely fewer employment opportunities in the industry. Unless the industry has an inherently labor intensive segment as the textile and garment industry where the possibly lower employment in the textile segment is offset by resulting higher level of competitiveness and growth in the more labor-intensive garment segment. The second is to move up the value chain and quality ladder, as these tend to be less sensitive to labor cost. However, these segments are inclined to be more dependent on skilled labor, capital, and good logistics infrastructure. This course of action is potentially against inclusive growth as the unskilled and uneducated have far less employment opportunity compared to the skilled. The third course of action is to encourage more resources toward industries where the country has a growing comparative advantage and where the international market opportunities are robust. For inclusive growth, it is best that these emerging or growing sectors are also employment drivers.

Study Three of the project compares the industry adjustment responses and the resultant employment implication in Indonesia, the Philippines and Vietnam based on one common major manufacturing industry; that is, the textile and garment industry cluster. It also examines the employment and “inclusive-growth effect” (i.e., effect on the more disadvantaged labor) of rising growth and employment drivers. These employment drivers are the ICT-based service industry in the Philippines, and tourism in Vietnam.

Firm level adjustment mimics to a large extent the industry adjustment; that is, firms need to restructure to attain economies of scale, close unprofitable segments or plants, move to new and promising segments, or upgrade their technology and product offerings. In addition, firms should undertake cost reducing or productivity enhancing modifications in their production processes. In all of these courses of action, labor is involved. The challenge is to generate cooperative arrangements within the firm, between management and labor, to address the challenge of productivity improvements and increased competitiveness while, at the same time, improving the welfare of workers and ensuring smother firm adjustment. The overall industrial relations environment of the country can influence the firm level adjustment process. Thus, for

example, the highly adversarial industrial relations environment in the Philippines during the latter 1980s contributed to the large number of strikes during the period that had negatively affected firm adjustments to the stiffening market competition at home and abroad.

Study Four of the project highlights the successful cases of firm adjustment, drawing to a large extent on the cooperative relationship between labor and management at the firm level. The presumption is that the cooperative relationship between management and labor facilitates smoother firm adjustment, thereby saving at the very least or even increasing employment.

Industry adjustment and firm adjustment results in labor market churning; that is, the process of workers getting employed, unemployed, or transferred to another job. The more robust an economy is, the more likely it is that the transitional unemployment between jobs becomes shorter. However, where the new jobs require different sets of skills from laid-off workers, then the transitional unemployment of the laid off workers can be long with likely serious effects on the welfare of their families. In this case, institutions or mechanisms that provide the laid-off workers the re-skilling needed for the new jobs could help reduce the transition time for re-employment.

The overall growth, trade, and employment dynamics of a country can also be expected to affect the nature and degree of labor market churning. Thus, for example, a development strategy that encourages capital-intensive import substitution in a labor surplus country can be expected to have a large pool of unemployed and/or underemployed, and thereby prevents inclusive growth. Similarly, the regulatory environment in the labor market affects the nature and degree of labor market churning. Thus, for example, the very high minimum wages and rigid labor markets could lead to high unemployment and a large pool of underemployed in the informal sector. As such, significant distortions in the labor market are against the objective of inclusive growth.

Study One examines the evolution of the overall growth, trade, employment, and wages, highlighting the employment effect of changes in policy and development regimes. Study Two examines the status of disadvantaged labor and the determinants of household earnings. Study Five examines industry and labor market churning and their effect on the welfare of workers. Study Six looks at the regulatory environment in the labor market and the state of the industrial relations environment.

The results of the analyses of the project's six studies will lead to policy recommendations as well as recommendations for institutional strengthening for competitiveness and inclusive growth. These recommendations are the final output of the research project and the basis for advocacy with the business sector, the government, and the general public. The advocacy work will be at the national level for the three countries studied in the project, as well as regionally for the business sector.

IV. FOUNDATIONS AND CHALLENGES OF INCLUSIVE GROWTH IN GLOBALIZATION

Inclusive growth requires that the poor are lifted out of poverty –that poverty incidence is reduced and abject poverty eliminated. As such, other things being equal, the higher the growth of the economy, the greater is the probability that poverty is reduced. Similarly, given the overall economic growth rate, the more equitable the economic growth, the greater is the positive impact on poverty reduction.

The main assets of poor people are their labor and, given that a substantial percentage of them live in the rural areas, their access to productive land. Thus, for a substantial drop in poverty to occur, the following are required:

> i. Substantial rise in gainful employment that is regular and remunerative;
> ii. Substantial rise in real wages, where the labor market is nearing or is at largely full employment;
> iii. Substantial rise in labor productivity in non-agriculture, especially in manufacturing and tradable services;
> iv. Moderate rise in labor productivity in agriculture; and
> v. Higher incomes for farm households through higher farm incomes and/or higher off-farm incomes

Given that agricultural employment tends to be seasonal, the substantial rise in gainful employment involves the secular shift of employment away from agriculture and towards more regular employment in the manufacturing, utilities, and formal services sectors. The experience of a number of countries in the region shows that the initial impulse for the significant rise in gainful employment in non-agriculture has been the surge in the export of low-skilled labor-intensive manufactures. The "soaking up of the (labor) surplus" from underemployment in agriculture (and informal petty services sector) without dramatically raising real wages –consistent with the Arthur Lewisian two-sector "unlimited labor supply" model– allowed for the surge in labor-intensive exports. It is apparent, however, that agricultural productivity growth is needed to allow the release of workers from the sector without significantly hurting domestic food supply and raising food prices, which would have meant the need to raise wages. In an open economy that takes as given the world prices of agricultural products, the rise of labor productivity in agriculture translates into higher farming incomes of households. The soaking up of labor surplus can result in the rise in opportunities for farmers and farm workers to do non-farm off-season work in manufacturing, construction, and other non-farm sectors, thereby raising further the incomes of farm households and contributing further to poverty reduction. The substantial rise of labor productivity in manufacturing and non-agriculture becomes more important as the labor surplus is soaked up and real wages rise in order for the international competitiveness of exports to be maintained, or other manufactures become more competitive as is consistent with the rising real wages. The substantial rise in labor productivity improves international competitiveness, even with rising wages, if the productivity growth is higher than in competitor countries –in such a way that the unit labor cost declines, or grows less than those of competitor countries. In the meantime, the significant rise in real wages concomitant to the substantial growth of labor productivity favors the poor and the near poor and engenders widespread and robust economic growth.

The internal dynamics described above are consistent with robust and high economic growth rate experienced by a number of developing countries during the past decades. Table 1 features selected statistics for China, Indonesia, the Philippines, and Vietnam. And Table 2 provides a broader cross-country perspective. Of the four countries, China is the exemplar success story. It is followed closely by Vietnam. Meanwhile, the Philippines exemplifies the opposite of the spectrum, while Indonesia straddles the middle with its own mixed experience of success and difficulties. The per capita GDP growth rate of China was spectacularly high from the late 1980s to the mid 1990s. In contrast, the growth rate of per capita GDP of the Philippines was very low during the same period. Indonesia had a high growth rate during the late 1980s to the early 1990s but struggled since the 1997 East Asian crisis. Vietnam had a robust per capita GDP growth during the same period and picked up steam in the past decade despite the 1997 East Asian crisis. For Vietnam and Indonesia during their successful periods, the growth rates of manufacturing employment were very high. Manufacturing employment is viewed here as an indicator of higher productivity, better wages, and gainful employment. In both countries, the unemployment rate is very low suggesting that the labor market is tight except, possibly, for underemployment in the economy. It is for this reason that in both countries, employment in agriculture started to decline as agricultural workers moved out of the sector and went to manufacturing. In the case of China, the labor market is tight such that real wages rose dramatically during the period. Manufacturing employment also declined as people moved towards services. Note that the growth of labor productivity was robust and moderate for the whole period in China, the late 1980s and early 1990s for Indonesia, and the late 1990s and most of 2000s for Vietnam. In sharp contrast, the very low growth of the economy in the Philippines during the period is echoed in the sluggish growth of labor productivity in agriculture, low growth of manufacturing employment, and middling performance of labor productivity in manufacturing. The same is true for Indonesia during the latter 1990s and early 2000s. Not surprisingly, both countries register high unemployment rates.

The importance of high economic growth is reflected in the differing performances of China and Vietnam on the one hand, and the Philippines on the other, in the reduction of poverty incidence. Table 3 shows the rate of decline in poverty incidence during 2003 and 2005, using US$2.00 per day per capita in 2005 PPP dollars. The contrast with the Philippines is particularly striking as the sluggish economy engendered a very low rate of poverty reduction.

The wider cross-country perspective generally supports the conclusions derived from comparing the four countries. Looking at the wider cross-country data, the Philippines mirrors more closely the data from the Latin American countries than its Asian neighbors. Indeed, the poor growth rates of real GDP per capita in the past decade and the negative growth in the early 1980s and 1990s are more reminiscent of the experience on Brazil, Colombia, or Mexico during the same period. Still having very large agricultural sectors, the growth rates of agricultural employment in Indonesia, the Philippines, and Vietnam are more in line with each other. Compare the now persistent decline, consistent however slight, in agricultural employment in Thailand and, at a much faster rate, in industrializing South Korea over the past two decades.

The Philippines has consistently been a cellar-dweller among Asian countries as regards the growth in manufacturing employment. The Philippines has historically had higher unemployment rates, except for during the 2005-2007 period, when Indonesia had the highest unemployment rate among the comparator Asian countries. Nonetheless, for the most part, the Philippines more closely resembles the unemployment rates in the Latin American countries although of late the unemployment rate in the Philippines has been considerably lower than that of Argentina, Brazil, and Colombia. Mexico's unemployment rate more closely resembles the statistics for the Asian countries other than the Philippines.

The poor performance of the Philippine and the Latin American economies is evident in the sluggish and even negative growth of labor productivity in manufacturing. Again, the Philippines sticks out among the Asian countries as being the worst performer. Indeed, it only breached positive growth during period 1995-1999. From 2000 to 2005, only Thailand fared worse but it, nevertheless, consistently posted positive labor productivity growth in manufacturing. The Latin American countries also experienced negative labor productivity growth in manufacturing in the 1980's and lethargic growth in the 1990s and 2000s. The exception is Argentina, which registered robust growth in the 1990s. The picture of labor productivity in agriculture is no different, with the Philippines being mostly the worst performer.

In quantifying the linkage between employment and output, we implement simple estimates of the output elasticity of employment by doing a regression of the natural logarithm of total employment on the natural logarithm on real GDP. The same is done, as well, on dummy variables for the 1982-1984 debt crisis and the 1997-1999 East Asian crisis, and two additional variables relating the interaction of the natural logarithm of real GDP and the dummy variables. We used data from 1971 to 2006. In all cases, the dummy and the interaction variables that are insignificant are not reported here.

The result for the Philippines, which is presented in Table 4, is remarkable as it shows much higher employment elasticities than its cohort countries in East and Southeast Asia. But this is not surprising given that the growth areas are in fact the labor-intensive agricultural and service sectors, and not labor-intensive manufacturing. Both agriculture and service sectors have lower labor productivities than manufacturing. Thus the high employment elasticity of the growth occurred at the same time with declining labor productivity and sluggish real wages. It can be noted that near unity employment elasticity of growth means nearly zero growth for labor productivity.

Indonesia, Malaysia, and Thailand have roughly the same elasticities for the whole economy. However, it is worth noting that both Malaysia and Thailand showed negative elasticities for agriculture and higher positive elasticities in the non-agricultural sectors during the 1990-2006 period. This indicates the end of labor surplus and the start of economic restructuring toward an industrialized economy. The closing of the labor surplus (including the underemployed) in both Malaysia and Thailand is reflected in the decline of the employment elasticities in the 1990s and early 2000s as compared to the 1970s and the 1980s.

In the case of Vietnam, the impressive economic growth rates have lower effects on employment based on the employment elasticity of output estimates of Dinh et al. (2009). Indeed, employment elasticity from 1989 to 1996 was 0.36. This increased marginally to 0.38 for 2000-2007. In the disaggregated estimates of the changing employment elasticities, the industry (and manufacturing) sector posted the lowest employment elasticities in 1989-1996 (See Table 5). But the industry sector also registered the highest elasticity (at 0.84)

in 2000-2007, while agriculture registered a negative elasticity.

A. Engendering high and sustained economic growth

The Commission on Growth and Development – composed of 19 leaders from developing countries and two Nobel Laureates in Economics, including its chair Michael Spence – distilled the experience of several high-growth countries and the accumulated wisdom from long years of policy making of its members to examine "the causes, consequences, and internal dynamics" of sustained high economic growth. The Commission's report, The Growth Report: Strategies for Sustained Growth and Inclusive Development (World Bank, 2008), highlighted the following key ingredients for engendering high and sustained economic growth rate:

i. Full exploitation of global economy: **Openness**
- Import knowledge primarily through foreign direct investment (including measures to extract technology from FDI) and through foreign education
- Exploit global demand

ii. **Macroeconomic stability**
- Modest inflation
- Sustainable public finances

iii. **High rates of investment and saving:** Future Orientation
- Public infrastructure

iv. **Let markets allocate resources**
- Prices guide resources
- Resources follow prices
- Labor moves rapidly from sector to sector
- Tumultuous process of creative destruction in fast growing economies

v. **Committed, credible and capable governments: leadership and governance**
- Credible commitment to growth
- Credible commitment to inclusion
- Capable administration (World Bank, 2008, pp. 21-26)

Based on average tariff rates, the economies of the Philippines and Indonesia are now the most open among the middle-sized countries in the region. Meanwhile, the decline in the average tariff rate in China is particularly dramatic in the 1990s. This is in line with China's entry into the World Trade Organization. The average tariff rates are shown in Table 6.

The data shows that trade restrictiveness on imports cannot significantly explain the substantial differences in performance of the four countries during the past two decades. Indeed, it is better to view the reduction in tariffs as stepping stone to deeper engagement with the rest of the world. The two major indicators of a country's effective engagement with the rest of the world are the ratio of foreign trade to GDP and the level of foreign direct investment (as well as its ratio to GDP). Table 7 below presents the figures for the four countries during the same period. Vietnam has been particularly impressive in the rise of the ratio of foreign trade to GDP. Vietnam's foreign direct investment volume has also been rising significantly in the past decade. But China is the leader among the four countries in terms of foreign direct investment volume during the past two decades. The table shows that both Indonesia and the Philippines have been laggards in both their share of foreign trade to GDP and their share of FDI to GDP. Indonesia's poor FDI and economic growth performance occurred during the past decade, at the onset of the 1997 East Asian crisis. This contrasts with its performance during the latter part of the 1980s and the early 1990s.

A critical factor of sustained high but inclusive growth is macroeconomic stability. There are three elements to this that are of importance: high inflation prevention, fiscal responsibility that avoids out of hand public debt, and the prevention of serious currency over-valuation. Macroeconomic crises tend to hurt the poor most through sharp price increases, large dips in income, loss of gainful employment, and reduced social services. Macroeconomic crises feed into a more disruptive industrial relations environment, as what happened in the Philippines in the late 1980s and in Indonesia in the early 2000s. A series of macroeconomic crises tends to create business uncertainty and cause reduced investment rate. This contributes to the freeze of productivity growth and low overall rise in welfare. An example is the Philippines during the periods 1983-1985, 1990-91, 1997-1999 and 2002-2004. The effects are decline in investment rate, low growth, high underemployment, and increased

poverty incidence.

Sustained high growth requires high investment rate and, usually, high domestic saving rate. As Table 8 shows, the Philippines has been a major tail-ender in the region in this respect. The country has the lowest investment rate of the four for much of the period, and the comparatively low investment rate in the mid-1990s dropped further by the mid-2000s. The low investment rate is partly due to the low rate of public investment, especially in infrastructure, arising from the tight budgetary constraint that the Philippine government faces amidst a comparatively high public debt burden. The resulting poor infrastructure in the country is bemoaned by investors as one of the major deterrents to higher private investments in the country. Meanwhile, China's investment rate has been very high during the period. Vietnam's investment rate has also risen dramatically in recent years – at rates much higher than the current investment rates in Indonesia and the Philippines. The Philippines has become a net saver in the 2000s as the saving rate rose while the investment rate declined. Thus, the real challenge for the Philippines, today and in the near future, is really improving the country's investment climate and raising the country's investment rate.

The two other key ingredients to sustained high but inclusive growth – market allocated resources, and a committed, credible and capable government – also put the Philippines and, to some extent, Indonesia on the losing end. As will be discussed in a later section of the paper, substantial distortions in the labor market adversely affected employment and industries in both countries. Vietnam and China hewed much more closely to the workings of the labor market, which led to large employment benefits especially for Vietnam. Both the Philippines and Indonesia have low estimations on the issue of corruption, which could have been a factor for the comparatively poor investment climate in both countries.

B. Indonesia, Philippines and Vietnam experiences: lessons and insights

The experiences of Indonesia, the Philippines, and Vietnam with regard to employment generation and poverty alleviation are often compared to the exemplar experiences of the so-called East Asian pioneers, namely Korea, Taiwan, Hong Kong, and Singapore. Khan (2001) writes that these pioneers experienced sustained annual average GDP growth rates exceeding eight percent over three decades, with economic growth being highly labor-intensive. This growth led to a high rate of employment increase, a substantial shift away from the agricultural sector into industry and services, and more importantly, an unparalleled increase in real earnings. This resulted in extraordinary decreases in absolute poverty incidence. However, there is a caveat: these outcomes were also brought about through redistribution of land, healthy research and development, and improved infrastructure and other public services.

In the above context, Indonesia, the Philippines, and Vietnam have seen a number of hits and misses. Indonesia experienced mild success from the mid-1980s to the early-1990s. But by the latter period, it is seen that high economic growth rates were accompanied by mounting unemployment rates such that Indonesia, post-Asian Financial Crisis, can already be described as experiencing widespread joblessness (Aswicahyono & Kartika, 2009). Vietnam's experience since the doi moi is generally regarded to be positive in terms of its economic development. However, although the reforms have seen remarkable successes (a significant drop in the poverty rate, for example), the country still finds itself to be in the low-income group. Vietnam's higher annual GDP growth rates run parallel with slow employment growth. Its low unemployment rate concealed a significant problem of underemployment (Dinh et. al., 2009). The Philippine growth experience, meanwhile, experienced what could be characterized as boom-and-bust cycles over the past two decades, with minimal improvements in total factor productivity growth (TFPG). The effect of the TFPG on employment is one of creative destruction, such that innovation or new technologies caused increases in unemployment (Alba & Dacuycuy, 2009) .

Aswicahyono and Kartika (2009) find that that Indonesia indeed experienced some early successes in improving workers' well-being through higher wages and higher labor demand. However, by the late-1980s wages were not growing and labor unrest became rampant such that the government tightened its grip on the labor

market and imposed a minimum wage requirement. This effectively doubled the minimum wage over five years beginning 1989. The minimum wage between 2000 and 2008 also increased considerably. But these increases were not accompanied by improvements in labor productivity, thus increasing the unit labor cost that, in turn, adversely affected Indonesia's competitiveness. The mandated increase in minimum wage and the greater inflexibility of labor may have contributed to the sluggishness of low-skilled, labor-intensive manufactures, and the shift of private sector focus to capital-intensive industries. With lower employment creation in the formal manufacturing sector, blue-collar workers moved into the informal labor market with lower earnings and poor working conditions, and into the ranks of the unemployed.

The authors looked into the sources of employment in Indonesia by dividing the change in employment into four variables: (i) the change in the labor-output ratio, (ii) the expansion in domestic final demand, (iii) net exports, and (iv) the change in the input-output coefficients. The first variable has to do primarily with labor productivity, improvements of which are expected to reduce labor requirements. The second and third variables deal with the structure of production and final demand, while the fourth deals with intermediate demand. The analysis is done by way of input-output accounting, with time frames of pre-crisis period or from 1975 to 1995 and post-crisis period or from 1995 to 2005.

The pre-crisis period results (See Table 9) shows that labor productivity accounted for a considerable reduction in the labor requirement. But the rapid growth of output during this period also resulted into very healthy labor creation. The estimates show that employment due to output growth was nearly twice the reduction attributed to improvements in labor productivity. During the same period, the main source of employment was domestic demand. Export-induced employment was more than double during the export-boom period (from 1985 to 1995) compared to the import-substitution period (from 1975 to 1985).

During the 1995-2000 crisis period, the trends seen during the pre-crisis period were reversed. Indeed, the main source of employment growth was declining productivity and output expansion negatively affected employment generation. This resulted in fewer available jobs and lower productivity in the Indonesian economy. This same period saw the replacement of domestic demand-induced employment by export-induced employment. It should be noted that during the crisis period, inflation was rampant and the rupiah hugely depreciated, which augured well for Indonesia's exports. During the recovery period of 2000-2005, however, the pattern seen during the pre-crisis period returned. And the rupiah appreciated in real terms resulting in the decline of competitiveness of the labor-intensive and export-oriented industry. This further reduced the capability of manufacturing exports to generate employment.

Vietnam instituted the *doi moi* in 1986 that started the process of reform of its economy. The outcomes of this process were high and continuous economic growth, shifts in the economic structure, and a significant drop in the poverty rate (Dinh et al., 2009). In the past two decades, Vietnam's economic growth rate rose from an average of 4.8 percent from 1987 to 1989 to about 7.8 percent from 2001 to 2007. This growth also been accompanied by increases in the share of industry and services in GDP, which led to the absorption of labor from the rural areas. Vietnam's impressive economic growth is largely dependent on exports, with export growing at around 20 percent per year between 1990 and 2007.

During the same period of economic boom, employment grew at around two percent per year despite the agriculture sector steadily shedding jobs beginning in 1996. The proportion of agriculture in total employment decreased from 73 percent in 1990 to just under 54 percent in 2007. Meanwhile, the share of industry increased from 11 percent to just around 20 percent during the same period. The share of services, on the other hand, grew from 16 percent to 26 percent of total employment. The remarkable economic growth coupled with low employment growth meant significant growth of labor productivity that allowed for increase in wages. Interestingly, although Vietnam's agricultural sector is suffering from low labor productivity growth; agricultural wages achieved a growth rate of 112% between 2002 and 2007. This is remarkable given the average growth rate of wages for the entire economy of around 21 percent. This likely reflects the narrowing gap of rural and urban wages, which is an expected outcome of a tightening labor market.

There have been no significant changes in the structure of labor in the manufacturing sector, except perhaps for the share of labor-intensive manufacturing, which grew from 49 percent in 2002 to just under 53 percent in 2006 (See Table 10). The average growth rates of wages in the agriculture-intensive and labor-intensive manufacturing sectors were also higher than the rest but are still lower than the average wages of the manufacturing sector as a whole. Also, similar to Indonesia during its export-boom period, export-oriented industries in Vietnam are an important source of employment growth. Generally, labor-intensive enterprises have created more jobs than those in other industries.

Overall, economic growth in Vietnam has been remarkable and registered significant contributions from the country's industrial sector. The high-value added industries have also begun to grow – implying industrial upgrading, improved wages and job creation. But these achievements still fall short of what Vietnam could potentially achieve.

In the case of the Philippines, it is common knowledge among academics and keen observers that the Philippines often suffers from temporary recessions followed by brief periods of growth; that is, it experiences unsustainable growth due to boom-and-bust cycles. Indeed, even readily available data show that the Philippines stands out as an anomaly when compared to its dynamic and high-flying East and Southeast Asian neighbors. During the immediate post-war period, the Philippines was inward looking and was slow to change towards an outward orientation. An economic shock came in the form of a balance of payments crisis in 1962 to 1970, stemming from the decontrol policy implemented by then President Diosdado Macapagal. In the 1980s, the country moved forward in trade liberalization but it was also during this time (also the period leading up the 1980s) that the Philippines saw tremendous political and economic upheaval. The detrimental effects of excessive fiscal expansion leading to debt-overhang started to be felt. These effects were compounded by the 1979 oil crisis and the debt crisis of the early-1980s.Thus, the commercial paper market nearly collapsed and the government had to impose a moratorium on its debt payments. All these led to serious capital flight and new investments fell short in addressing depreciation.

In the aftermath of the Marcos administration, the new government implemented a slew of economic reforms that allowed the operation of market forces. Central to these reforms were the adoption of an export strategy and the liberalization of imports. However, the late 1980s and early 1990s also saw a number of political destabilizations coupled with uncertainty brought about by the first Gulf War. This resulted in a decrease in the growth of gross capital formation in the first post-Marcos administration. In this view, the country's full entry into the globalized world came only during the Ramos administration, which saw three years of sustained growth. This, however, was derailed by the Asian financial crisis and the Philippines experienced the damaging effect of a reversal of short-term capital inflows.

In view of the dismal performance of the Philippine economy in terms of output, employment, and productivity, Alba and Dacuycuy ask whether good things come out after recessions. One of these "good things" is the Schumpeterian notion of recessions as being opportunities for the economy to cleanse itself and retool. They also try to answer whether technological improvements are for or against labor.

The context of their analysis is the experience of a number of Philippine economic aggregates during periods prior to the 1980s and post-1980s. The latter period captures the Philippines' foray into globalization. The authors find that output and investment became much more volatile in the post-1980s. They also find that productivity is pro-cyclical to output fluctuations; that is, productivity growth slows down during downturns. In addition, the average TFPG post-1980s was already minimal and that it was not as volatile as in the pre-1980s. This low TFPG implies that there has been a dearth of technological progress perhaps due to the lethargic replacement of capital that was destroyed during the economic downturn. Indeed, boom-and-bust cycles lead to uncertainty that undoubtedly decreases the impetus for investment.

With regard to employment, industrial employment is negatively correlated to agriculture and services. And although industrial employment is a significant component of total employment, its

contribution to new employment has been disappointing. In this view, the Philippines has not experienced a Lewis-type movement and its agriculture is still an absorber of labor. It is this key characteristic that separates the Philippines from its East and Southeast Asian neighbors. Manufacturing should have been the principal employment driver.

To further their analysis, the authors look at the interaction of business cycles and productivity by utilizing structural vector autoregression. Their results showed that fluctuations in investments were compounded by fluctuations in output, which in the 1990's became more pronounced with investment being procyclical to output. In other words, with the presence of instability and increased competition, output fluctuations accentuate fluctuations of investment. Their simulations show that in the long run, organizational changes occur after recessions, implying favorable adjustment by the economy. However, productivity improvements will not be sustained in the absence of significant upgrades. The growth of total factor productivity also promotes creative destruction in terms of employment. In this view, technological upgrading or innovations increases unemployment.

C. The continuing challenge of inclusive growth and the face of the disadvantaged

The challenge of engendering inclusive growth is made manifest by the still large number of poor and disadvantaged in the region. Table 11 presents the incidence of poverty and the number of poor people in the ASEAN, based on two alternative definitions of the poverty line: US$1.25 per day per capita in 2005 PPP and US$2.00 per day per capita in 2005 PPP. The table shows that Indonesia stands out as having the highest number of abject poor –those with income below US$1.25 per day per capita– as well as having the highest incidence of poverty at US$2.00 per day per capita. Thus, it is Indonesia where the challenge of engendering inclusive growth is most acute and urgent. Nonetheless, the number of the poor in both the Philippines and Vietnam is also considerable. The poverty rate at US$2.00 per day per capita is well over two-fifths for these two countries. All three countries are the most populous in Southeast Asia. Hence, it is in the three countries where poverty reduction and inclusive growth will have greatest impact on the largest number of people.

Table 11 also presents the estimates for Malaysia, Thailand, Laos and China for comparison. The table shows that Laos is where the degree of poverty incidence is most acute in Southeast Asia. Meanwhile, abject poverty has largely been eliminated in Malaysia and Thailand, although there remains a considerable number who have incomes below US$2.00 per day per capita. The table also shows that China is almost like two countries when it comes to the state of its poor. Specifically, urban China is similar to Malaysia and Thailand with barely minimal abject poverty while rural China is similar to Indonesia, Philippines and Vietnam. Thus, inclusive growth and poverty reduction in China need to have a much greater rural focus as compared to Indonesia, the Philippines and Vietnam where poverty is more spread out in both the rural and urban areas. The huge poverty gap between the rural and urban areas in China may be reflective of the considerable barriers and restrictions to labor mobility in China between the rural areas (mainly in the hinterlands) and the cities (mainly in its eastern seaboard).

There is some commonality in the face of the disadvantaged in Indonesia, the Philippines, and Vietnam. To put the analysis in context, it is observed that even with an uptake in economic growth for the three countries, unemployment increased. This is seen in Tables 12 and 13. This situation has been characterized by the different authors as "jobless growth." In particular, unemployment has been observed to be higher in the urban areas for Indonesia and the Philippines (See Friawan & Mangunsong, 2009; Cabegin, Dacuycuy, & Alba, 2009). Also, they find that there is a relatively high level of unemployment among the youth in general and the educated youth in particular.

The three-country studies point to the obvious notion that underemployment is a much severe problem than unemployment. Indeed, the underemployment rates across the three countries were observed to be much higher than the unemployment rate. The incidence of underemployment or part-time work has been decreasing in Indonesia between 1986 and 2008, slightly decreasing in the Philippines from 1988 to 2003 before increasing in again 2006, and increasing in Vietnam between 1998 and 2008 (See Table 12 for Indonesia, Table 13 for the Philippines and for Vietnam). In Indonesia, the underemployment rate for those working less than 25 hours per week dropped from 24 percent during the 1986-1989 period to 19 percent in 2007, while the underemployment rate for those working less than 35 hours per week dropped from 42 percent to 33 percent during the same period. In Vietnam, the incidence of severe underemployment (those working less than 10 hours per week) decreased from 34 percent to 22 percent, but the incidence of underemployment (those working less than 36 hours per week) increased from 54 percent to 68 percent between 1998 and 2008. Again in Indonesia, the underemployed are mostly in the rural areas and the incidence of shorter work hours is more apparent for females rather than the males. But the proportion of female workers to total part-time workers has been declining from 1986 to 2008. A large chunk of part-time workers are the young. The youth underemployment rate is considerably higher than that of other age groups but the proportion to total underemployed has been decreasing from 1986 to 2008. Finally, the underemployed are generally of lower educational attainment in the period in question (Friawan & Mangunsong, 2009).

In the case of the Philippines (See Table 14), Cabegin, Dacuycuy & Alba (2009) estimate the rate of disadvantaged employment based on four definitions:

i. Open unemployment
ii. Open and discouraged unemployment
iii. Unemployment and underemployment, and
iv. Underutilized labor (i.e., the sum of the previous definition and unprotected full-time employment)

What is obvious from the table is the generally upward trend across all four definitions. According to the authors, the recent economic growth in the Philippines has been accompanied by a "growing mass of precarious and unprotected employment (casual, seasonal, intermittent employment)" that they attribute, partly, to more flexible labor arrangements. It can also be easily seen that the share of the labor force that is fully-employed in unprotected work is around three to four times as much as that of the unemployed. In 2006, 56 percent of the labor force in the country is asserted to be disadvantaged.

Figures 2, 3, and 4, meanwhile, put a face to the disadvantaged labor in the Philippines. In 2006, only about 18 percent of openly unemployed workers belong to poor households compared with 36 percent of the underemployed and 46 percent of the fully-employed but vulnerable workers. Those who were openly unemployed tend to be younger and relatively more educated urban residents. However, those who suffer from inadequate and insecure employment were more likely to be the least educated, male rural dwellers, and household heads in the prime working ages. In other words, these are those who can least afford to be unemployed.

Meanwhile for Vietnam, Pham, Bui, and Tran (2009) adopt two definitions of disadvantaged employment. First are the disadvantaged wage earners whose income is less than 1.5 times that of the general poverty line. Second are the disadvantaged self-employed workers whose expenditure per capita is below the poverty line.

Figure 5 shows that the disadvantaged workers are more prevalent in rural areas. But between 1998 and 2006, their incidence in the rural areas declined from 76 percent to 60 percent. Their incidence in the urban area, however, has risen from 24 percent in 1998 to 41 percent in 2006.

An overwhelming proportion of disadvantaged workers are also employed in the private sector, but this has since fallen from 71 percent in 1998 to 59 percent in 2006. Employment in the state sector has also risen from 20 percent to 33 percent during the same period (See Figure 6). Agriculture, meanwhile, employs the most number of disadvantaged workers and its share has risen from 28 percent in 1998 to 36 percent in 2006. The other sectors that saw increases are retail trade, leather products, and wholesale. The remaining sectors have seen declines.

Most disadvantaged workers barely finished the primary and the secondary educational levels, but by 2006 the proportion of tertiary graduates in total disadvantaged workers also rose. Those with vocational training and primary schooling saw declines in their proportion to total disadvantaged workers from 1998 and 2006. Unskilled workers still dominate the ranks of disadvantaged workers,

responsible for 43 percent of all disadvantaged workers in 1998. Manual workers form a large proportion of disadvantaged workers. This is also true for professional labourers. In addition, new entrants into the labour force –junior workers with working experience of less than five years– make up a significant share of the disadvantaged workers. A considerable share of the disadvantaged workers are also underemployed (less than 36 hours per week) and severely underemployed (less than 10 hours per week).

Finally, Pham, Bui, and Tran (2009) observe that experience, schooling, and skill are negatively related to the probability that a worker will belong to the disadvantaged group. Similar to its effect on earnings, being in a skilled or technical occupation decreases the probability that a worker will be disadvantaged. However, workers in the agricultural sector are associated with a higher probability of disadvantaged employment. The same is true for workers in urban areas, except when using 2006 data. In 2006, workers in urban areas are associated with decreasing probability of being in the disadvantaged group. For both Indonesia and Vietnam, education, skill, and experience are found to be positive and significant contributors to individual earnings. They also find that being male decreases the probability that a worker will be disadvantaged. In addition, being male also increases the earnings that a worker will be receiving (See Friawan & Mangunsong, 2009; Pham, Bui & Tran, 2009).

V. GLOBALIZATION, EMPLOYMENT DRIVERS, AND THE CHALLENGE OF INDUSTRIAL ADJUSTMENT

A. Shifts in comparative advantage in East Asia

The East Asian economic landscape (including most of Southeast Asia) has changed dramatically during the past two and a half decades. It has been shaped by the rapid economic growth of some countries in the region, deepening intra-regional economic linkages in trade and investment –linked to a large extent by the growth of production networks, and the growing role of the region in the world economy. The developing East Asia, for example, is seen as the factory of the world –especially in the fast growing electronics and electrical machinery industry and the telecommunications equipment industry. The changing economic landscape is also intimately linked to the shifts in comparative advantage in the region arising from significant changes in relative factor prices, reduction in the real cost of international communication, sharp improvements in logistical facilities and services that allow the effective fragmentation of manufacturing processes into workable production blocks located at various locations in the region, and technological developments such as product miniaturization and modularization of production processes that facilitate geographical spread of production. The same goes for policy changes and institutional improvements that allowed freer flow of goods and capital, aggressively sought out foreign direct investments, and streamlined international trading and investment procedures in many countries in the region. The interplay of trade and investment that has characterized the East Asian surge has been propelled to a large extent by multinationals that founded the growth of production networks in the region and that are expanding into the growing domestic markets.

The changes in the pattern of international trade and the shift in comparative advantage in the whole of East Asia got a big boost in the latter part of the 1980s when rising real wages, the Plaza Accord appreciation of the Japanese yen (vis-à-vis the US dollar), the appreciation of the New Taiwan dollar, and the opening of the special economic zones in China saw the march of export-oriented direct investment from Japan to Southeast Asia and from Taiwan and Hong Kong into Southern China. The substantial real appreciation of the Japanese yen and NT dollar forced the relocation of low-skilled labor-intensive manufacturing out of Japan and Taiwan so as to stay competitive in the US market, especially with a depreciated dollar. Since the Hong Kong dollar was pegged to the US dollar, the shift of manufacturing from Hong Kong to neighboring Guangzhou province of China was due more to the explicit restructuring strategy of Hong Kong in order to focus on financial and logistical services. The initial surge toward Southeast Asia and China in the latter 1980s strengthened further in the 1990s with the development, deepening, and widening of production networks in the region. This led to the sharp increase in intra-regional trade in parts and components for electrical machineries and, to some extent, automotive equipments.

The shift in comparative advantage in East Asia is presented in Tables

15 and 16. As Table 15 shows, the commodity composition of exports of the major country groups in the region changed significantly during the 1990s and the 2000s. The East Asian NIEs (Korea, Taiwan, Hong Kong and Singapore), ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand, Vietnam), and China have seen substantial increases in the share of machinery exports from the early 1990s to the early 2000s. This is a reflection of the widening and deepening of production networks in the region that is dominated by the office, telecommunications and electrical machinery industries. China and, to a lesser extent, the ASEAN-5 has consequently relied less on agriculture, mineral and fuels exports during the period. ASEAN-5 remains abundant in natural resources and is the primary source in the region. Hence, the still considerable share of agriculture, mineral, and fuels to the total exports of the ASEAN-5 countries. During the period, China has substantially reduced its reliance on the export of low-skilled, labor-intensive manufactures like textiles, garments, leather, rubber, and travel goods. The same goes for the NIEs that still hold a considerable percentage of exports in textiles. Japan, the once preeminent exporter of textiles and garments in the region, is now essentially a net importer of those products. Japan has now become the primary exporter of automobiles in the region, followed by Korea.

Perhaps a better measure of the shifts in comparative advantage in the region is the revealed comparative advantage by factor intensity. As Table 16 shows, Japan, which was once the region's export leader of textile and garments, and of steel, no longer has revealed comparative advantage in both. Japan has also reduced its revealed comparative advantage in electrical machinery and electronics, as the Japanese firms that invested in other parts of East Asia have reduced their reliance on imports from their home country. Where Japan has continued to hold revealed comparative advantage is in automotive, engineering goods, and process manufactures that require stronger coordination, tighter quality control and precision, and customization. Meanwhile, both South Korea and Taiwan have a wider range of goods with which they have revealed comparative advantage. The data indicate a significantly declining comparative advantage in low technology industries. But they have a rising share in electrical machinery and electronics, engineering goods, and, especially for Korea, automotive products. Singapore's revealed comparative advantage in fuels is linked to its petroleum refinery industry that benefits from its strategic location in the Malacca Straits through which much of the crude oil exports from the Middle East to Asia passes.

The ASEAN-5 countries have variously shown revealed comparative advantage in resource-intensive goods (specifically Indonesia, Malaysia, Thailand), low skilled labor intensive manufactures like textiles, garment and shoes (Indonesia, Philippines, Thailand, and Vietnam), and skilled labor intensive operations of electrical and electronics industry high technology (Malaysia, Philippines and Thailand). These varied RCAs reflect the underlying relative factor endowment of the ASEAN-5 countries. The Philippines is worth noting because, in just a decade, the country dramatically lost its revealed comparative advantage in agriculture-based products, significantly reduced its revealed comparative advantage in low-skilled and labor-intensive products (textiles, garments and shoes), and sharply improved its revealed comparative advantage in skilled labor intensive high technology products. China's RCA estimates show its very strong revealed comparative advantage in low-skilled, labor-intensive manufactures, and strong comparative advantage in capital-intensive and energy-intensive mature technology industries such as iron and steel, electrical machinery, and electronics goods. China is also in the cusp of having revealed comparative advantage in engineering goods. China's RCA reflects its huge reserve of low-skilled and highly-skilled labor, as well as its huge domestic market with low power cost that is conducive to the growth of capital-intensive mature industries that reap the benefits of economies of scale.

The East Asian shifts in comparative advantage, in tandem with the growth of regional production networks, have the effect of intensifying intra-regional trade. Intra-regional trade in East Asia, as a share of global trade, increased significantly from 8.2 percent in 1990 to 12.9 percent in 2004. This is significantly higher than the share of intra-NAFTA trade to global trade. Similarly, there has been a marked increase in the share of intra-regional trade to the total trade in the region (Urata, 2006). Consequently, there has been a marked redirection of trade in many of the East Asian countries towards greater trade with one another and lesser so with the United States. The Philippines exemplifies this redirection of trade towards East Asia. The shares of East Asia and the United States in the total

merchandise exports of the Philippines, of 36.1 percent and 38.1 percent respectively during the period 1990-94, were dramatically reversed during 2000-2004 with shares of 53.7 percent and 24.0 percent respectively (Urata, 2006). Most of the other countries in the region also experienced the same reorientation of external trade with East Asia, albeit less markedly. The most notable exception is China which saw a significant reduction in the East Asian trade share, in part because some of China's international trade in the early 1990s was coursed through Hong Kong and because it became the final assembler in many regional production networks.

Again, as shown in Tables 15 and 16, the shift in comparative advantage in the region is a dynamic process. As ratios of capital and labor endowments substantially change among the countries, as relative human capital endowments change over time, and as technology transfer and development surge, there will be shifts in the comparative advantage and alterations in the pattern of trade in the region. For example, some of the garment firms in Southeastern China have been moving to Cambodia as real wages in China rose compared to the labor cost in Cambodia. Nonetheless, the pressures for industrial adjustment and upgrading have been far more drawn-out and acute in the Philippines. Similarly, Indonesian industries, like the textile and garment industry, have also been feeling the pressure for adjustment arising from both external factors and domestic factors. There has also been industrial adjustment in Vietnam. The next subsection discusses the Philippine, Indonesian and Vietnamese experiences of industrial adjustment.

C. Philippine, Indonesia and Vietnam experiences in industrial adjustment

The Philippines, Indonesia and Vietnam present interesting contrasts and similarities with respect to the industrial adjustment of selected employment drivers to the demands of open domestic markets and to globalization. The country studies give special focus on textile and garments (Indonesia and Vietnam), ICT-based tradable services (Philippines), and tourism (Vietnam). In textile and garments, the Philippines has lost quite a bit of ground while Vietnam surged forward during the past two decades. Indonesia presents the middle ground between the two countries. Textile and garments in the country surged in the late 1980s and early 1990s but struggled since the 1997-1999 Asian crisis. The Philippines' new area of significant comparative advantage is ICT-based tradable services, especially call center operations and business process outsourcing.

The textile and garments industry is the quintessential industry for manufactured exports and manufacturing employment of the early phase of industrialization in labor abundant countries. Virtually all the East Asian countries had textile and garments to anchor their manufactured exports growth early on. This was true with Japan, then the NIEs (especially Hong Kong, Korea and Taiwan), then Thailand and Philippines, then China and Indonesia, and then, most recently, with Vietnam and Cambodia. Of the East Asian countries with significant textile and garment industries and exports, the Philippines appears to be the country where the industry did not have as much impact on manufacturing output and exports.

The Philippine textile and garment industry struggled much earlier against competition in the global economy and in the more open domestic market than that of the other East Asian countries. After the robust growth of output and employment in the 1970s, the Philippine textile industry was hit hard by the economic crisis of the early 1980s. It did not fully recover from the crisis despite the country's positive growth in the latter 1980s and continued with a steady decline in the 1990s and the 2000s. The garment industry had an unsteady growth experience, with surges in output in the latter part of 1970s, late 1980s, and early 2000s, but followed by output declines in the early 1980s, much of 1990s, and in the mid-2000s. The difficulty of the garment industry stems in part from the lack of robust domestic textile industry to back it up in the face of growing competition abroad. It also suffered from the comparatively high wages in the country vis-à-vis the emergent low labor cost exporters in the region. To some extent, the country's garment industry has adjusted to the challenges of increased competition by moving up the quality ladder with greater focus on branded garments. However, its reliance on imported materials does not favor massive capital investments that would dramatically raise labor productivity and substantially reduce unit labor cost. The country barely still has revealed comparative advantage in garments, but its industry has become a significantly smaller player in the manufacturing sector. The industry has mapped

out an adjustment and upgrading strategy which however remains to be implemented. Whether the decreases in industry output in recent years is a portent of further secular decline of the industry is difficult to tell, but the challenges for the industry to remain a significant player of Philippine exports and manufacturing are large indeed.

The textile and garment industry highlights the mixed adjustment experience of the Philippine manufacturing sector during the 1990s and the 2000s. Whereas low-skilled and labor-intensive manufacturing industries like textile, garments and footwear struggled and declined, the manufacture of electrical machinery, appliances, and supplies expanded significantly during the period. Semiconductors and related electronics exports dominated Philippine exports and the country produced the highest ratio of "high technology exports" to total exports among East Asian developing countries by the mid-2000s (Ando & Kimura, 2009). Semiconductors and other high technology exports are skilled-labor intensive. This is where the Philippines appears to have comparative advantage given its large human capital endowment at relatively low cost via-à-vis NIEs and developed countries. That the Philippines has revealed comparative advantage in skilled-labor intensive industries has become clearer with the recent surge of output and exports of ICT-based tradable services like call centers, business process outsourcing, medical and legal transcription, and knowledge process outsourcing services (Villamil, et al, 2009). The ICT-based tradable services industry is now the country's fastest growing employment and export driver, with cumulative total employment creation that is fast closing in on the semiconductor and related electronics industry, and with export growth that hovers around 30 to 40 percent per year. Two other skilled-labor intensive manufacturing industries grew robustly during the period. These are the automotive industry, with automotive parts exports linked to the regional production networks of the key automotive companies in the region, and the emerging export-oriented shipbuilding industry.

The shift towards more skilled-labor intensive manufacturing and tradable services is not the only major adjustment process that occurred in the Philippines in the 1990s. The other adjustment process, which was more socially difficult, was real wages stagnation and decline in the manufacturing sector during the 1990s to the early 2000s (See Table 17). The data for monthly compensation in establishments with employment of at least 20 employees show decline in real compensation during the 1990s. This contrast starkly with the steady rise in real wages in the region's other countries, most notably in China. The stagnation and eventual decline in real wages occurred in tandem with the stagnation of labor productivity in manufacturing in the early 1990s and the gradual increase in labor productivity beginning in the late 1990s. The adjustment then happened through a reduction in unit labor cost with some reduction in real wages and, during the early 2000s, some increase in labor productivity.

The pressure for the reduction in real wages in manufacturing can be gleaned from Table 18, which shows that the earnings per month in manufacturing as a ratio of current per capita GDP is the highest in the region. The data suggests that the Philippines will find it difficult to compete in manufactured exports, except in skilled-labor intensive industries, given the country's comparatively high labor cost in manufacturing and its level of development. The data also suggest the continuing pressure that is exerted on the country's manufacturing industries to upgrade in order to survive the intensifying competition in the region. The same data highlight the importance and urgency of substantially raising manufacturing investments in the country in order to raise labor productivity and improve the sector's export competitiveness. The country faces a growing dualistic market and continuing high unemployment and underemployment rates in large part because the manufacturing has failed to be a major source of new jobs, something that has characterized the history of the majority of the successful East Asian economies. This can be expected to further fuel the continuing debate in the country on the appropriate degree of flexibility of the labor market in the face of the Philippine economic growth's poor employment and income outcomes.

In contrast to the Philippine experience, Vietnam's manufacturing sector greatly surged ahead during the same period as the country established more stable trade and investment relationships with key countries and regions. The country's share of manufacturing to GDP rose substantially from 12.3 percent in 1990 to 21.3 percent in 2006. In contrast, the share of manufacturing to GDP in the Philippines hovered within 21.5 percent to 24.5 percent during 1993-2006, and

within 24 percent to 26 percent during 1970-1991. To a large extent, the sharp rise in the share of manufacturing to GDP of Vietnam is an indication that the country is in the early industrialization stage, which the Philippines experienced in the 1950s and 1960s. But the Philippines got stuck with about 25 percent share of manufacturing to total GDP for nearly four decades while the share of manufacturing has reached nearly 35 percent and 33 percent for Thailand and Malaysia, respectively, in recent years. This is indicative of the relative failure of the industrialization strategy of the Philippines.

The textile and garment industry exemplifies the remarkable pace of Vietnam's manufacturing sector growth. The gross output of the industry grew by an average of 15.4 percent a year during 1996-2000 and 20.5% a year during 2000-2006. Attendant to this fast growth is the sharp increase in the number of textile and garments enterprises from 987 in 2000 to 3,208 in 2006 and the fast growth of employment in the sector by an average of 16.7 percent during 2000-2006. A great part of the growth since 2000 is export driven. This is a result of bilateral trade agreements with the European Union in 1992 and the United States in 2001, and of preparations for Vietnam's accession to the World Trade Organization in 2007. By 2006, the textile and garments industry accounted for about 2.1 million employments in the formal sector, households and small enterprises, or about five percent of the country's total employment. The fast textile and garments exports growth meant that by 2007 the sector accounted for the largest share of the country's exports, surpassing gas and oil. The success of Vietnam's textile and garments industry can also be gleaned from the sharp rise in the share of total imports of textile and garments of the United States from only 0.069 % in 2000 to 3.64 % in 2006. The industry emerged as the fifth largest US import source, surpassing Thailand, Honduras and Canada. This remarkable growth occurred in tandem with structural changes in the industry, including the reduction in importance of state-owned enterprises and the corresponding substantial increase in the output and export share of private enterprises, especially of firms with foreign direct investments. The fast increase in output and exports led to the sharp increase in the importation of textiles and accessories. Finally, total factor productivity grew robustly, which enabled some increase in wages. (See Nguyen et al., 2009) for a more detailed analysis of Vietnam's textile and garment industry.)

Most of the workers in the textile and garment industry in Vietnam are unskilled female workers. Historically and in relation to the experiences of other countries, this is not surprising. And this is illustrative of the shift of workers towards manufacturing in a labor-surplus developing economy. Surplus labor is usually unskilled and is at the bottom of the value chain of the garment industry. But on a large-scale, it is an avenue for unskilled labor to get to work in the manufacturing sector. In a sense, low-skilled and labor-intensive industries like the garment industry soak up the surplus labor after which, with the resulting low unemployment rate, the pressure for wage increases builds up. The low unemployment rate in Vietnam, compared to the Philippines, is a reflection of the success of the Vietnamese economy to soak up the surplus labor in the country. It also highlights the new adjustment challenge for the country. Specifically, the fast rate of employment creation in the industry, characterized by soaked up surplus labor at relatively low real wages, is no longer viable. Such a pace of employment creation will inevitably result in significant pressure for real wage increase. Thus, the adjustment challenge for the industry is to upgrade the skill of workers, improve the productivity of labor, and move up the product quality and value chain in order for the industry to remain internationally competitive. This is the fundamental challenge that must be met for Vietnam's garment industry to move forward.

The Indonesian textile and garments industry provides an interesting middle ground between the Philippines and Vietnam cases. Indonesia's industry grew rapidly before the East Asian crisis but stalled during and after the crisis. It is also experiencing increasing pressures for industrial upgrading. Narjoko and Hapsari (2009) presents an interesting in-depth analysis of Indonesia's textile and garments industry before, during, and after the East Asian crisis of 1997 in terms of entry and exit of firms, small-large firm linkages, and industrial clustering. Narjoko and Hapsari show that the entry rate of firms into the industry was much higher than the exit rate during the period 1993-1996, but exit rates increased and entry rate substantially declined during the 1996-1999 crisis period. The same pattern obtained in the 2000s. Similarly, the expansion rate of firms in terms of employment was higher than the contraction rate before the crisis. However, the contraction rate increased during and after the

crisis. Further, the expansion rate declined during the crisis until the early 2000s before recovering somewhat during 2002-2004. These changes in the rates suggest vigorous adjustment of the industry, with firms closing and new firms coming in, firms streamlining and others expanding. Narjoko and Hapsari show that the robust rate of transition from small firms to medium sized firms and from medium sized to large firms before the crisis dropped during the crisis and declined further in the early 2000s.

A further analysis, by the same author, of Indonesia's export-oriented and domestic-oriented firms shows that domestic-oriented firms, which are more strongly linked to small firms, were particularly hard-hit from the crisis compared to the export-oriented firms. This is probably not surprising because export firms were cushioned by the sharp depreciation of the rupiah while the domestic oriented firms were hit on both cost side (through the sharp rupiah devaluation) and the demand side (through the decline in income and fall in domestic demand). The post-crisis 2000-2004 period presented a reversal of Indonesia's fortune as the export-oriented firms suffered on both the demand side (the recovery of the rupiah meant a significant real appreciation since the crisis, thereby reducing the price competitiveness of Indonesian textile and garment exports in the world market) and on the cost side (by a significant rise in real wages). On the other hand, the domestic-oriented firms that also faced increased in real wages saved somewhat by the recovery of domestic demand. The result of all the adjustments on employment since the crisis was its reduction in the domestic-oriented firms during the crisis and also its decline in the export-oriented firms after the crisis. The net result is that the textile and garments industry, a major generator of jobs before the crisis, became largely insignificant after the crisis. Narjoko and Hapsari point to the policy-mandated rise in real wage in the early 2000s as a key factor behind the failure of the textile and garments industry to regain its pre-crisis role as a robust generator of employment after the crisis.

To summarize, the experiences of Indonesia, Philippine and Vietnam suggest the following key lessons: (i) it is best to stick closely to one's comparative advantage; (ii) major policy shocks like policy-mandated hikes in real wages hamper the growth of firms and exacerbate adjustment challenges; and (iii) major misalignment of general wages vis-a-vis competitor countries pose serious competitiveness problems and longer lasting structural concerns that require economy-wide changes like substantial increase in the overall investment rate.

D. Industry adjustment, labor market churning, and workers welfare

The industry adjustment exemplified by the experience of the textile and garment industry in the three countries discussed above has significant implications on the labor market and the welfare of workers. Industry churning leads to labor market churning (employment, quitting, and lay-offs).

Globalization has undoubtedly affected industry churning. Wicaksono & Hirawan (2009) found two key points that proves the case in the experience of Indonesia. First, there was a dramatic increase in employment between 1990 and 1994, stagnation between 1995 and 2005, and a dramatic decline in 2005. Employment growth also accelerated between 1993-1995 and 1999-2000. The earlier period was caused by a favorable economic environment but the latter period is surprising given that it was a period of recovery. Further, job creation and job destruction seem to have a cyclical pattern between 1990 and 2004 (see Figure 7), suggesting that employment flows are dynamic in the manufacturing sector, especially during the pre-crisis period. The Asian financial crisis saw a sharp increase in job destruction, but job creation also saw a slight increase in 1998 although it has since showed a continued downward trend. Given the declining trend of job creation and reallocation, and the constant job destruction rate, it seems that new employment has become scarce in the post-crisis period. The excess job reallocation rate also appears to have reached a peak in 1998 after years of continuous increases.

Wicaksono & Hirawan also attempt to explain the different reasons for moving from employment to unemployment and of changing jobs (See Table 19). Majority of those who became unemployed suffered job-dismissal. Workers who quit their jobs to find another job because of shutdowns or insufficient salary were around 61 percent and 70 percent respectively. Those dismissed from their jobs also had a difficult time finding another job because they had low productivity or the dismissal diminishes their motivation and willingness to find another job.

The authors also find that workers who get reemployed after losing a job accepted lower salaries. It is rare that the reemployed worker will receive a salary as high as that of the average worker. The authors assert that a male worker is less likely to lose his job, and that an older worker is more likely to keep his job because of the higher severance cost. Workers who have higher educational attainment are less likely to lose their jobs. But it is interesting that those who only reached junior high school tended to have better jobs than those who completed senior high school. It should be mentioned that senior high school graduates tended to work in medium-skilled industries such as in textiles and garments. Finally, workers who previously worked in a high-growth industry are less likely to lose their jobs compared to workers who worked in a medium-growth industry.

They authors also estimate the probability that a worker who loses a job will be reemployed. They find that the probability of reemployment is higher for males and that females are more vulnerable in the labor market. Work experience is a positive key factor in reemployment. But a lower-educated worker is more likely to be reemployed than a mid-educated worker. This may be because a lower-educated worker will be more willing to accept a job with a lower salary.

Nguyen et al. and Pascual (2009) examine the adjustment experiences of workers under globalization. In the case of Vietnam, Nguyen et al. write that the effects of globalization can be clearly observed in the state sector. They assert that globalization bring about a redundancy of labor among state-owned enterprises (SOE). They find that the redundant workers are relatively older, relatively unskilled, and work in the processing and construction industries, in agriculture, forestry, and aquaculture. Workers considered redundant are those who are unable to meet the work requirement and those who voluntarily stopped working. For those who have been able to find work, 54 percent were salaried while eight percent became business owners. In addition, almost 20 percent of the re-entrants were in managerial and technical positions. However, the redundant employees were not given opportunities to upgrade and, strikingly, most gain better income after the redundancy and feel that their lives have improved.

Meanwhile, Pascual writes that at the onset of the 2008 financial crisis the Philippines saw resignations and layoffs in the mining industry jump from two percent in the first quarter to 16 percent in the second. Hiring in construction also plummeted from 20 percent in the first quarter to six percent in the second. More significantly, resignations and layoffs jumped from below 12 percent in the first two quarters of 2008 to 40 percent during the third quarter. Manufacturing also saw a rise of hiring and firing in the fourth quarter of 2008. The brunt of the crisis seems to have been absorbed by manufacturing. Indeed, manufacturing employment went down to 2.8 million in January 2009 from over three million in October 2007 and posted five consecutive quarters of net job losses. The finance and construction industries have also recorded net losses of 30,000 and 40,000 jobs respectively.

To study the effects of job losses on workers, Pascual conducted a non-random survey of displaced workers. From this, he generated data on their characteristics, their post-displacement experience, and the economic and non-economic effects of unemployment on their lives. His study shows that displaced workers have persistently low reemployment rates. In particular, only half of the contractual workers found wage employment after seven months of displacement and only ten percent were employed during the date of the survey. Further, only one-third of the displaced regular workers found wage employment following the displacement. Five years after displacement, only 16 percent of his sample had wage jobs. The most persistent reason for not being able to find a job is the age limit; establishments prefer to hire workers who are less than 35 years of age. But this reason disappears when workers accept part time work. Union membership is also a hindrance to being reemployed.

The displaced workers regard economic security as one of the main costs of job displacement. Indeed, the loss of regular employment contributes to uncertainty and instability in the long-term. Also, the emergence of the business cycle or boom-and-bust cycle effect caused plant shutdowns or the seasonality of demand. Meanwhile, the main outcomes of displacement are unemployment and earnings losses. In addition, displacement can also have an adverse impact on health and well-being, quite a number of the research respondents succumbed

to death. Lastly, job displacement can also have an intergenerational effect as the children of those displaced become dropouts.

To summarize, globalization increases industry churning leading to higher labor turnover. There are substantial social costs of firm closures under low economic growth and high unemployment as the Philippine case highlights. The social costs stem from long unemployment spells, low reemployment rates, downgrades in employment status, and significant wage loss. The social costs include the loss of social protection, decline in the condition of health, loss of access to credit, children dropping out, loss of skills, and the inability to meet personal needs thereby undermining self-esteem. The Philippine experience suggests the importance of better provision of basic social safety nets (health insurance, basic education support for the children of displaced workers) to help protect the families of displaced workers during the transition phase. More important, however, is the engendering of more robust economic and employment growth to sustainably address the concerns of workers affected by labor churning. Labor churning and its social cost also present a threat even for successful adjusters. In the case of Vietnam, unskilled workers were particularly vulnerable from cost reduction pressures among low margin exporters of labor-intensive goods. Thus, the challenge is how to substantially upgrade the skills of the workers and make them competitive as wages inevitably rise in the face of a tight labor market.

E. Towards social partnership

The increased pressure for industrial adjustment and its implications on overall competitiveness and workers welfare are ultimately played out at the firm level. How firms adjust is influenced by the general industrial relations environment on the one hand, and the specific circumstances and worker-management dynamics of firms on the other. Given that worker dislocations have costs as the discussion above indicates, two of the challenges in managing the continuing industrial adjustment process are how to minimize worker dislocations and how to ensure the viability of firms in the face of economic shocks. With the Philippines facing the most difficult challenges in industrial adjustment among the three countries covered in the project, it is not surprising that it is in the Philippines where concerted efforts at strengthening worker-management relations and cooperative mechanisms or social partnership have been most earnest. Vietnam, meanwhile, riding on the beneficial effects of international trade and investments, has been largely untouched by social partnership initiatives.

Social partnership in the Philippines was introduced by the Americans in 1953 in the form of collective bargaining and economic unionism. In the 1970's, social partnership evolved into joint labor-management initiatives. However, this initial foray into establishing labor-management councils/committees only saw lackluster participation. After the downfall of the Marcos government, the Aquino government actively promoted LMCs and incorporated it into the Labor Code. Between 1986 and 2003, the number of strikes decreased. A significant reason for the decline in the number of strikes is the adoption of more social partnership mechanisms by large firms during the period that helped usher in a more cooperative and peaceful labor-management relations in the country.

Sibal (2009) presents many of the social partnership initiatives and innovations undertaken primarily by large firms in the Philippines. The approach is to take the "high road" through human resource development driven interventions that emphasize employee participation and skill formation. These "enhance competitiveness and productivity side by side with decent work through more participative rather than adversarial labor management relations." A part of the high road response is the improvement in the quality of products and services. It is worth noting that in the survey of workers participation in firm decision making, it is the foreign-owned, foreign-invested, and unionized firms that have taken social partnership to heart (Sibal, 2009).

Sibal studied the best practices of social partnership in the country for both unionized and non-unionized workplaces. In particular, he looked into (i) labor-management cooperation practices in unionized workplaces, (ii) practices in non-manufacturing unionized workplaces in the National Capital Region, (iii) practices in unionized workplaces outside of the National Capital Region, and (iv) practices in non-unionized workplaces.

For unionized workplaces, Sibal observes that the labor-management councils/committees in the unionized workplaces are composed of senior and middle-level managers, and the elected union representatives. These LMCs were initially interested with social activities, but they have since expanded to productivity concerns, family welfare and responsible parenthood, food service, and faith or values enhancement. There are also documented cases wherein livelihood and income generating concerns were taken up by the LMCs. In other firms, the partnerships also venture into housing and skills-training. The most conspicuous benefit of LMCs is the maintenance of industrial peace. All companies that were studied in the research had no strikes or lock-outs. Short and smooth collective bargaining negotiations were also enjoyed by the companies. The most relevant benefit for workers is the above-average compensation and benefits packages. Productivity has been increased in all the companies and employees were willing to volunteer their time and services when needed.

The second set of case studies deals with practices in non-manufacturing unionized workplaces in the National Capital Region. The companies surveyed were consistently listed as among the outstanding practitioners of social partnership. In these cases, it has been observed that both the employer and the union were active partners. The parties are active partners and decide on matters such as terms and conditions of work, livelihood and financial assistance to employees, and grievance machinery, etc. In these workplaces, it is observed that the length of time in negotiating collective bargaining agreements has been significantly decreased. In one of the surveyed firms, reemployment opportunities were even given to those who have been displaced. The employees were offered the option of being employed in the firm's subsidiaries. This same firm also extends loans to displaced and retired workers, enabling them to establish their own small businesses that then get subcontracted. In another of the surveyed firms, social partnership includes an employee provident fund co-managed by the employees and worker representation in the firm's highest policymaking body.

Lastly, Sibal looks into the social partnership best practices in non-unionized establishments. One of the key examples was the adoption of an open book management (OBM) program in a top automaker, which enhances the employees' appreciation of their roles as partners in the firm. This automaker also developed scorecards for its employees that determine bonuses and other rewards. Another firm, meanwhile, established quality circles that aim to achieve and maintain good employee relations and harmonious working conditions. This allows employees to express their voice with regard to company procedures. The same firm also promoted peer training, in which employees train each other individually and collectively. Finally, two of the surveyed firms established employee councils that serve as partners of management. These councils actively look after the welfare of the employees and recommend plans to the employee relations boards, which also have senior management representatives. The benefits of social partnerships are increased productivity, industrial peace, better communications between labor and management, and above average worker's compensation and benefits.

Setiati and Mugijayani (2009) meanwhile, observe that a number of best practices in social partnership emerged in Indonesia:

i. Improved communication between management and employees;
ii. The adoption of a performance management system tied to compensation, whereby employees are coached and given advice with the aim of improving their productivity;
iii. Gain-sharing between management and employees, wherein firms adopt a pay-for-performance approach in determining compensation;
iv. Provision of a more flexible rewards system including "innovation competitions" or cafeteria-style compensation, whereby employees design a compensation package from a given "menu";
v. Establishment of quality circles that address the concerns of the workers;
vi. Adoption of the principles of Total Quality Management, a strategy that teaches all employees an awareness of quality in every process; and
vii. Stock options for employees

In the case Vietnam, Cu (2009) claims that globalization has brought increased competition to the country's firms. The author finds that the

primary social partnership tool employed by the respondent firms is the promotion of labor welfare. There are varied examples, but those that stand out are the provision of housing and meals for the workers. In addition, the firms ensured worker safety by providing appropriate safety tools and equipments. The firms are also actively engaged in providing health care and social insurance to their employees. The promotion of labor welfare in Vietnam resulted in minimal or even zero disruption because of strikes.

F. Labor Market regulatory regime

Globalization drives the changes in the labor market institutions in an economy. Indeed, this phenomenon has brought about the demise of traditional forms of employment and the traditional employer-employee relationships.

Atje, Pasha, & Silalahi (2009) write that Indonesia's labor market was transformed by the 1997 Asian financial crisis from relative flexibility to relative rigidity. Given the country's history of military rule and dictatorships, the government tightly controlled labor movement and put an emphasis on economic stability. During this so-called pre-crisis period the government employed various means to curb strikes, including strict implementation of the minimum wage and insurance. When labor was unable to secure concessions they held strikes, but this signaled weakness instead of signaling the strength of the labor movement in Indonesia. In other words, management had the upper hand in labor relations. After the Asian financial crisis, industrial relations significantly turned pro-labor.

According to the authors, the Suharto government adopted *panca sila* industrial relations, which is a non-adversarial approach to labor-management relations. Conflict resolution was guided by the principle that the firm is family (*asas kekeluargaan*). However, the government was such a powerful force that heavily controlled labor unions. Consequently, the supposedly tripartite relations that should emerge from this principle of industrial relations were biased in favor of the government. In addition, the government took upon itself to promote labor welfare in order to mitigate dissent. It was during this time that the government imposed minimum wage, social security, and labor standards. But because of these initiatives, labor cost went up and Indonesia's competitiveness weakened.

In the aftermath of the Asian financial crisis, Indonesia emerged with a presidential form of government that had to court the support of the populist parliament. This explains the government's adoption of a number of pro-labor initiatives. These initiatives include the promulgation of the ILO convention recognizing and protecting the freedom to organize, and the enactment of a law allowing for the establishment of more than one labor union at the enterprise level. The government also mandated that employers provide severance payments, even for employees who have been dismissed because of negligence or other serious violations. Further, a law has been passed that restricts the ability of firms to hire workers under a fixed-term contract. The law states that a fixed-term contract may be used only for temporary or one-off work, seasonal or daily work not exceeding three months, work that is expected to be completed within three years, and work related to the introduction of new products. The law also prohibits firms from subcontracting production jobs or those that are related to the core activities of a company.

The authors claim that the regulations that were adopted in the aftermath of the Asian financial crisis have made Indonesia's labor market rigid. Indeed, it is now costly to lay off workers even for legitimate reasons. Additionally, alternative modes of employment such as fixed-term contracting or subcontracting are now being discouraged. Because of these, labor-intensive industries have had a difficult time recovering and capital-intensive industries have become important sources of exports. Companies, therefore, have begun to minimize the adverse effects of the above regulations. For instance, it is quite common for firms to hire workers under fixed-time contracts, even employing them beyond the three-year limit, after laying them off for a few days. In another instance, firms kept full-time workers employed by reducing their working hours. They also increased the work hours of part-time workers. As alternatives, firms also adopted new technologies in their production.

In the case of Vietnam, Nguyen (2009) claims the country has just entered the initial period of pre-industrialization, which is typically a difficult period in industrial relations. During this time, companies are usually labor intensive. Also, low salaries and poor working

conditions are prevalent. There is a great movement of labor from rural to urban areas and from the agricultural to the non-agricultural sector. In 1994, Vietnam enacted its Labor Code. The code provides for tripartism, social dialogue and collective bargaining, and a venue for adjudication, etc. However, Nguyen asserts that most of the provisions in the code are not supported by the appropriate legislation or institutional mechanisms.

Indeed, the system of tripartism in Vietnam's industrial relations points towards what the author calls a mismatch between the representative organizations of workers and employers, and their capacity to look after the employee and employer well-being. In this regard, the Vietnamese General Confederation of Labor (VGCL), the representative organization of employees in the country, is much stronger than the Vietnam Chamber of Commerce and Industry (VCCI) and the Vietnam Cooperative Alliance (VCA), the representative organizations of employers. This is because the sole purpose of the VGCL is to take the side of labor while the VCCI and the VCA are also tasked to promote trade, investment, and cooperatives. The VCCI and the VCA only have one division that is tasked to look after industrial relation issues.

Social dialogue and collective bargaining did not become standard practices in Vietnam. Social dialogue takes the form of simple but regular meetings between management and workers, and also communication through suggestion boxes or an intranet system. Collective bargaining agreements (CBA), meanwhile, are considered to be only symbolic and of poor quality. In fact, the so-called CBA-wage, which is different from the minimum wage and includes provisions on how it is paid, is absent in most CBAs that are lacking in terms workers extra benefits. It was also observed that the rapid economic growth in Vietnam was accompanied by an "explosion" of labor disputes and strikes. The author finds that workers resort increasingly to strikes because of increasing awareness and greater capacity at organizing such. Workers strike mainly for pay hikes. However, the bases for the demand are not market pressures the rigid minimum wage enacted by the government.

In the case of the Philippines, Esguerra & Cañales (2009) note that labor protection is promulgated in the present and in all the past constitutions of the Philippines and also in the Labor Code. However in practice, close to half of the employed labor force in the Philippines is not protected by labor regulations. Labor regulations also tend to be biased against those who are employed instead of encouraging employment. Wage limits have been part of the Philippines labor relations since the Commonwealth period and yet increases have been recorded almost every year beginning in 1972. It should be noted that between 1972 and 1986 wage increases were mandated by the President. Wage determination was returned to Congress in 1987. In 1989, the Philippine Congress created the National Wages and Productivity Commission, which was given the task of determining wages through the Regional Tripartite Wage and Productivity Boards. Currently, there are at least 216 minimum wage levels across the country. In the same year the commission was created, Congress also increased the minimum wage by 40 percent. Also, the 13th month pay has been made mandatory since 1986. The author claims that the Philippines has the third most expensive labor in Southeast Asia after Singapore and Malaysia. This tends to hurt the small and micro-enterprises that make up 99 percent of all establishments in the country.

Labor contracting and subcontracting are generally allowed in the Philippines but are subject to regulation. This is in recognition of the importance of promoting employment and at the same time of protecting workers rights. The existing regulation assures the contracted worker that a competent authority will assume the responsibility of ensuring her legally mandated rights and benefits. This "competent authority" is generally taken to be the courts. Consequently, there is a backlog of cases regarding the question of lawful labor in the courts. At any rate, the existing labor laws and regulations have allowed firms enough flexibility in hiring and firing.

Finally, labor laws protect the rights to organize, collectively bargain, and engage in industrial action. However, there is low union density in the Philippines and collective bargaining has limited scope. As such, the authors assert that these labor rights are just paper rights. This weakness of organized labor is seen as hindrance to inclusive growth as unions help enforce labor standards and advance redistributive goals. Instead, workers in the country rely on third

parties, usually lawyers, in order to promote their rights. This gives rise to an excessive dependence on courts and quasi-judicial bodies, and the resolution of these cases is painstakingly slow. The issue now in Philippine industrial relations, according to the authors, is "wean[ing] the current system of dispute settlement away from costly adjudication...toward[s] prevention" (Esguerra & Cañales, 2009).

VI. POLICY IMPLICATIONS

Perhaps the most important policy is ensuring that robust growth in labor demand exceeds the growth in the supply of labor. This essentially involves securing reasonably high economic growth and preventing the occurrence of macroeconomic crises in the face of shocks –economic or non-economic, internal or external. Using the Philippines as an example of a country that faces fiscal fragility and heavy debt burden, macroeconomic crises can have adverse and protracted effects on the economy. Concretely, it took nearly two decades before the Philippines was able to recover in terms of per capita income from the1983-1985 economic crisis. A critical reason for this was the high fiscal cost of the debt service burden. To cope, the Philippines had to drastically reduce the per capita expenditures in agriculture and in infrastructure. This led to the poor performance of the country's agriculture sector during the 1980s and early 1990s. The resulting low infrastructure spending, meanwhile, caused the power crisis in the early 1990s and the deterioration in the quality of transport facilities during the same period when virtually all the major Asian developing country competitors of the Philippines were investing heavily in infrastructure. As the country has comparatively high wage costs, it could have overcome such a disadvantage through lower energy and logistical costs in order to be an attractive foreign investment destination. Instead, the Philippines has now one of the highest energy rates in Asia and one of the poorest quality of infrastructure stock (except for telecommunications) in the region.

Similarly, Indonesia was adversely affected by the East Asian financial crisis of 1997-1999. This is, in large part, because of the country's very high external debt service burden even before the onset of the crisis. Much of the increase in external debt and debt service in Indonesia was due to private sector borrowing. As a result, the private sector took a huge hit from the sharp depreciation of the rupiah, dragging the whole economy down. The 1997-1999 crisis brought political change and uncertainty in Indonesia to the detriment of the overall investment climate. Indonesia's economic recovery from the crisis was slow compared to Malaysia, Korea and Thailand. But it was faster than the Philippine case in the 1980s because of its better fiscal and debt situation.

These examples show that, in order to prevent macroeconomic instability and minimize the effects of boom-bust cycle, prudent macroeconomic management is critical. This means that public debt and external debt must be kept in control vis-a-vis large fiscal deficits. In relation, the poor structural foundations of a country's fiscal regime must be addressed.

The Philippines, and to a lesser extent Indonesia, needs to significantly improve its investment climate and substantially raise the country's investment rate. The Philippines has been at the region's tail end, in terms of investment rate, for more than two decades. This translates to low labor productivity growth. And given the country's relatively high wages for low-skilled workers, it means that it cannot be competitive in low-skilled labor-intensive products despite the fact that the country still has a large pool of underemployed and unemployed low-skilled labor. Raising the country's investment rate must be done in both the public and the private sectors. There have been so many recommendations to improve the country's investment climate coming from a wide range of stakeholders such as the various foreign chambers of commerce in the country, the Philippine Chamber of Commerce and Industry, the National Competitiveness Council, etc. Most of the proposals revolve around the need to improve infrastructure and governance, reduce corruption, more efficient customs, better human capital, etc. Thus, the challenge for the country is really one of implementation rather than strategy formulation.

Another important policy implication of the studies discussed here is the need for more investments in human capital formation. This means investments in skilling-up and training workers. It also means improving the educational attainment of the populace, as well as providing them wider access to good quality education. The importance of skilling-up is particularly highlighted in the Vietnamese

efforts to avoid being trapped in low-skilled labor-intensive industries. In the case of the Philippines, human capital formation is important because there is not enough supply of skilled labor for the fast growing tradable services industry. Skilling-up is also important in Indonesia as it is also facing competitive pressures from the lower wage countries like Vietnam.

The papers point out that the majority of the disadvantaged labor are actually the underemployed and the inadequately paid fully-employed. In both the Philippines and Indonesia, the unemployed tend to be better educated and belong to households with low poverty incidence. Giving more emphasis to the underemployed and the fully-employed poor brings out the importance of (i) generating job opportunities primarily in the countryside where the majority of the underemployed are located, and of (ii) job opportunities for the less skilled because most of the underemployed tend to be unskilled or with low educational attainment. This highlights the need for greater public and private investments in agriculture, countryside tourism, and rural industrialization. It emphasizes the need for bigger investments in housing and infrastructure because construction is low-skilled and labor-intensive. It also stresses the need to expand industry-linked technical training to raise inter-sectoral labor mobility. Finally, for the Philippines, it calls for encouraging private investments in manufacturing because this is where many of the good-paying semi-skilled industries are located.

Another key recommendation of this research is the expansion of social partnerships. The Philippine experience indicates that more cooperative relationships and better communication between management and labor increase the morale of workers and improve their productivity. Equally important, industrial peace is engendered in firms, which is a reversal of the earlier periods of labor strife. The innovations in institutional mechanisms that encourage social partnership between management and workers are not only applicable even in competitive pressure; they also are worth undertaking even under favorable circumstances. Indeed, as firms and industries in Southeast Asia undertake more technological and process upgrading, it becomes necessary that they also increase their investment in social partnerships among management, workers, and the government to maximize their competitiveness.

The contrasting experiences of the three countries on economic growth and employment during the past two decades suggest the importance of preventing the misalignment of the real wage rate from the equilibrium real wage rate. In the case of Indonesia, the sharp rise in the mandated minimum wage in the early 2000s contributed to the sluggishness of low-skilled labor-intensive manufacturing industries. The result is that Indonesian manufacturing growth barely gave rise to an increase in manufacturing employment. This experience contrasts dramatically with the substantial employment creation in the manufacturing sector before the East Asian financial crisis. The Philippine experience presents the same jobless growth in the manufacturing sector since the 1990s. Equally important, it suggests that the policy-determined disequilibrium in the labor market ultimately hurt workers in the long run. The mandated minimum wage in the country rose sharply in the late 1980s. Together with the real appreciation of the Philippine peso in the early 1990s and the reduction in tariffs on imported manufactures in the same decade, the sharp minimum wage increase led to the decline of low-skilled labor-intensive industries, negligible increase in overall manufacturing employment, and reduction in the real wage over the decade. These experiences stand in sharp contrast to Vietnam and pre-crisis Indonesia. In both latter cases, there was no major distortion in the price of labor. The lesson and implied policy recommendation, then, is to prevent substantial pricing distortions and unnecessary rigidity in the labor market in order to allow for smoother industrial adjustment to changing comparative advantage in the region.

Another key recommendation is to institute, strengthen, and widen basic social safety nets for displaced workers, especially in education and basic health for their children and families. In consideration of the tight budget constraint of developing countries like the Philippines, it is important that such safety nets are well-targeted. A promising approach to such targeting of anti-poverty and safety net initiatives is the use of a community-based monitoring system (CBMS), as there is a growing evidence of its usefulness at both the local and national levels (Reyes & Due, 2009).

Finally, all three countries need a serious review and refinement of their labor market regulatory regimes to greater balance competing interests, decrease distortions, build effective institutions, implement stronger social partnerships, encourage greater social dialogue and effective negotiations at firm level, and promote simplicity, clarity and enforceability of rules and regulations.

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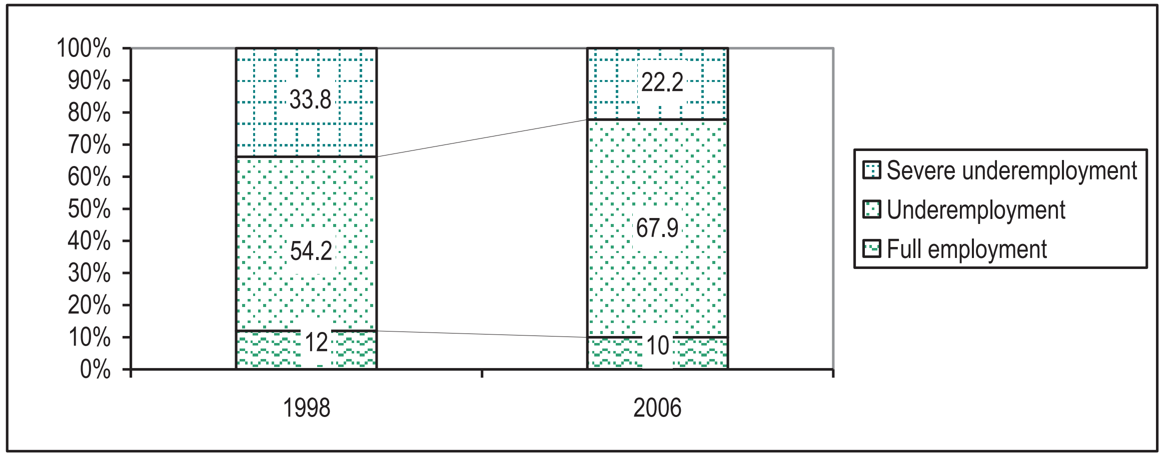
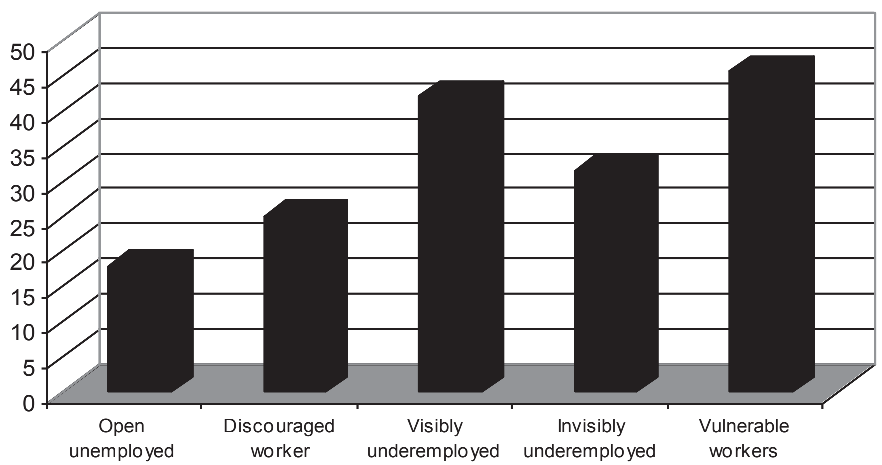
FIGURES AND TABLES

Figure 1: Working Time Utilization by Disadvantaged Workers
(% of workers)



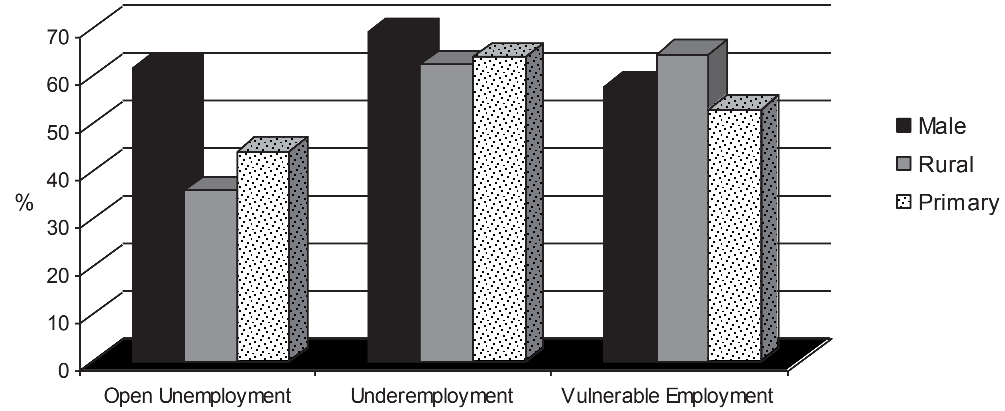
Source: Pham, Bui, and Tran (2009)

Figure 2: Percent of Disadvantaged Workers in Poor Households, 2006



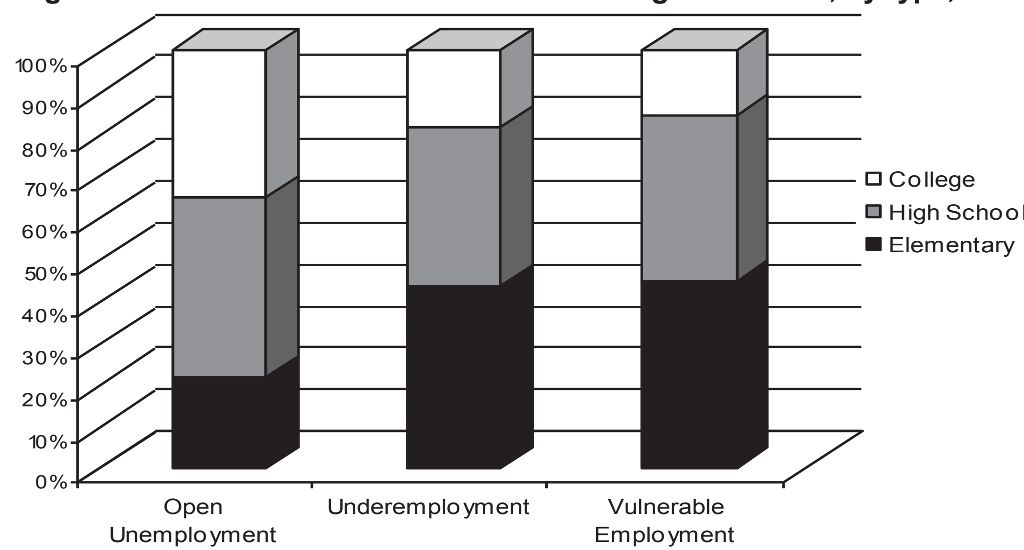
Source: Cabegin, Dacuycuy, and Alba (2009)

Figure 3: Percent Male, Rural Dwellers, and Prime-aged Workers by Type of Disadvantaged Work, 2006



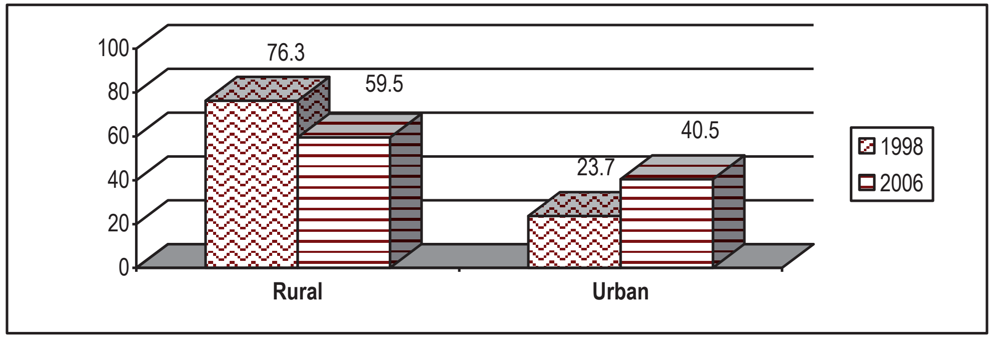
Source: Cabegin, Dacuycuy, and Alba (2009)

Figure 4: Education Profile of the Disadvantaged Workers, by type, 2006



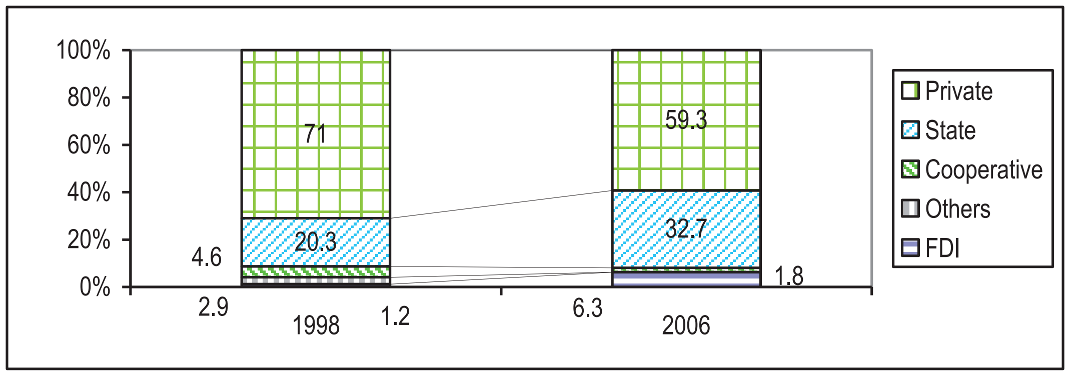
Source: Cabegin, Dacuycuy, and Alba (2009)

Figure 5: Disadvantaged Workers by Urban/Rural Areas (percent of total disadvantaged workers)



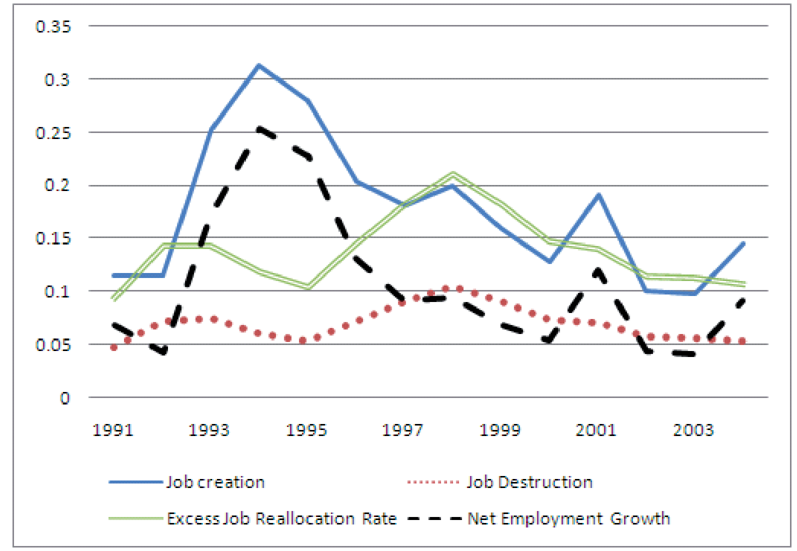
Source: Pham, Bui, and Tran (2009)

Figure 6: Disadvantaged Workers by Ownership of Employer (in percent)



Source: Pham, Bui, and Tran (2009)

Figure 7: Job Creation, Job Destruction and Employment Growth, 1990-2005



Source: Wicaksono and Hirawan (2009)

Table 1: Selected Statistics

		Indonesia	Philippines	Vietnam	China
Growth Rate of Per Capita	1987-1996	6.20	1.33	4.95	8.90
Real GDP	1997-2005	1.30	2.06	5.80	8.36
Growth Rate of Manufacturing	1987-1996	7.12	3.87		1.75
Employment	1997-2005	0.99	1.08	6.97	-0.34
Average Rate of	1987-1996	3.20	8.47	1.92	2.50
Unemployment	1997-2005	8.43	9.23	2.37	3.62
Average Growth of Labor	1987-1996	5.06	0.72		9.04
Productivity in Manufacturing	1997-2005	2.34	2.47		10.48
Average Growth Rate of Labor	1987-1996	3.70	1.06	1.79	3.83
Productivity in Agriculture	1997-2005	1.21	1.88	4.00	3.12

Source: The World Bank (2009)

Table 2: Selected Indicators across Selected Southeast and East Asian and Latin American Countries

Indicator	Period	Southeast Asia						East Asia		Latin America			
		Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam	China	South Korea	Argentina	Brazil	Colombia	Mexico
Growth Rate of Real GDP Per Capita	1981-1984	4.18	3.99	-2.03	5.13	3.79		8.68	6.53	-2.63	-2.73	-0.14	-0.37
	1985-1989	4.16	2.20	0.26	4.86	7.34	2.13	8.18	8.15	-2.80	2.52	2.28	-0.77
	1990-1994	6.24	6.46	-0.45	5.76	7.53	5.16	9.47	6.79	5.34	-0.13	2.29	1.97
	1995-1999	0.29	2.58	1.58	3.00	0.44	5.84	8.02	3.69	1.04	0.70	-0.41	1.36
	2000-2005	3.35	3.15	2.79	3.35	4.05	6.11	8.63	4.56	0.82	1.13	1.70	1.51
Growth Rate of Employment in Agriculture	1981-1984		-0.16	0.24		-0.10			-0.51		0.42		
	1985-1989	0.45	0.21	-0.03	-2.71	0.59		0.19	-0.32		-0.13	0.63	
	1990-1994	-0.16		0.29	3.89	-0.26		0.01	-0.60			2.20	
	1995-1999	0.03	0.21	-0.15	-12.24	-0.29	0.00	0.01	-0.35	0.77	-0.11	-0.40	0.06
	2000-2004	0.11	-0.30	0.25		-0.06	0.02	-0.08	-0.66	1.95			-0.44
	2005-2006	0.19	0.24	0.12		0.07			-0.15				
Growth Rate of Employment in Manufacturing	1981-1984		-1.10	2.27		-0.51			-4.13		4.00		
	1985-1989	4.91	1.60	0.35	11.66	6.06		2.44	-2.55		-1.58	2.50	
	1990-1994	9.35		4.34	-0.55	5.44		2.75	7.71		1.93	4.66	
	1995-1999	1.68	2.93	1.66	-4.71	2.84	5.98	-3.19	-2.95	-0.18	-0.78	-0.27	8.16
	2000-2004	-0.67	0.44	1.60	-1.02	3.93	5.58	0.82	1.42	-4.14			-0.63
	2005-2007	2.31	-0.68	0.45	3.88	1.76			-1.35				
Average Unemployment Rate	1980-1984	2.95	5.80	5.52	2.88	2.48		3.22	4.38	3.92	4.45	10.10	
	1985-1989	2.61	7.20	7.67	4.16	3.48		2.08	3.19	5.66	3.22	11.34	2.51
	1990-1994	2.78	3.93	8.61	2.47	1.83		2.50	2.54	8.40	5.38	9.35	3.40
	1995-1999	5.39	2.94	8.43	3.30	2.08	2.35	3.02	4.00	15.56	7.78	13.53	4.44
	2000-2004	8.52	3.42	10.23	5.41	1.96	2.30	3.84	3.78	16.01	9.26	15.68	2.91
	2005-2007	10.21	3.40	7.00	3.84	1.24	2.90	4.10	3.46	9.51	9.57	11.68	3.35

Table 2: Selected Indicators across Selected Southeast and East Asian and Latin American Countries

Indicator	Period	Southeast Asia						East Asia		Latin America			
		Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam	China	South Korea	Argentina	Brazil	Colombia	Mexico
Growth Rate of Real Wages	1981-1984		7.05			23.61			5.27				
	1985-1989		0.37	6.04	5.52			-1.49	8.23				
	1990-1994		3.79	1.40	5.27	2.11		6.95	7.64	-20.38		9.51	
	1995-1999	-2.41	5.87	0.09	5.19	1.93		7.80	3.23	0.70	-4.45	-3.54	0.58
	2000-2004	21.86		-4.06	2.61	0.98		12.82	5.87	9.27		14.20	4.55
	2005-2007			-0.61	3.06			12.87	2.33			-2.95	1.98
Growth Rate of Labor Productivity in Manufacturing	1980-1984	9.10	3.34	-2.06	1.81	4.31			8.23	-3.32		-0.17	-1.31
	1985-1989	4.23	4.42	-0.66	5.70	4.72			3.99	-1.61		2.21	-1.82
	1990-1994	2.79	2.19	-0.89	7.86	5.42	11.10	11.18	8.50	7.25		-8.48	2.53
	1995-1999	2.78	3.10	1.92	5.08	2.21	7.86	13.81	10.54	4.69	-15.96	2.43	0.94
	2000-2005	5.04	6.92	2.98	4.13	1.86	2.44	8.27	7.32	1.81	-4.37	1.43	2.69
Growth Rate of Labor Productivity in Agriculture	1981-1984	2.13	4.59	-0.95	11.72	-0.12	4.99	8.08	13.13	1.96	3.03	0.67	0.74
	1985-1989	2.00	2.44	2.82	1.81	2.67	2.04	1.71	5.98	-1.73	5.38	4.21	-2.34
	1990-1994	4.11	6.85	-0.62	-3.68	3.90	2.60	4.60	5.21	5.49	0.36	-1.73	3.50
	1995-1999	1.47	4.52	1.82	15.69	3.95	3.50	4.04	6.70	6.41	5.62	5.61	2.45
	2000-2005	1.59	3.50	2.15	-3.01	3.09	4.01	3.30	5.45	3.87	3.69	0.00	3.06

Source: The World Bank (2009) and International Labour Organization (2009)

Table 4: Employment Elasticity of Output

		Whole Economy			Agriculture			Manufacturing			Services		
		1971-2006	1971-1989	1990-2006	1971-2006	1971-1989	1990-2006	1971-2006	1971-1989	1990-2006	1971-2006	1971-1989	1990-2006
Southeast Asia	Indonesia	0.42 ***	0.51 ***	0.38 ***	0.33 ***	0.52 ***	-0.15	0.45 ***	0.37 ***	0.46 ***	0.61 ***	0.71 ***	0.74 ***
	Malaysia	0.48 ***	0.59	0.50 ***	-0.41 ***	0.16 *	-0.28 *	0.55 ***	0.65 ***	0.34 ***	0.62 ***	0.81 ***	0.75 ***
	Philippines	0.84 ***	0.90 ***	0.63 ***	1.31 ***	0.98 ***	0.59 ***	0.85 ***	0.84 ***	0.47 ***	0.91 ***	1.06 ***	0.47 ***
	Singapore	0.23 ***	0.41 ***	0.07 *	0.94 ***	0.64	-0.59	-0.08	0.50 ***	-0.50 ***	0.00	0.38 ***	-0.42 **
	Thailand	0.42 ***	0.58 ***	0.22 ***	0.36 ***	0.78 ***	-0.35 ***	0.55 ***	0.49 ***	0.55 ***	0.70 ***	0.67 ***	1.16 ***
East Asia	China	0.30 ***	0.32 ***	0.12 ***	-0.01	0.51	-0.11 ***	-0.02	0.20	-0.08	0.59 ***	0.70	0.36 ***
	South Korea	0.34 ***	0.37 ***	0.28 ***	-0.57 ***	-0.55	2.33 ***	0.38 ***	0.63 ***	-0.21 ***	0.63 ***	0.67 ***	0.59 ***
Latin America	Brazil	1.03 ***	1.10 ***	0.70 ***	-0.43 **	0.35	-0.31	0.07	1.62 *	-0.04	0.64	1.19 ***	0.42 ***
	Colombia	1.12 ***	0.86 ***	0.92 ***	1.94 ***	1.06 *	0.06	1.45 ***	0.77 ***	-0.17	0.97 ***	0.95	0.58 ***

Table 3: Poverty Incidence in Indonesia, the Philippines and Vietnam

Country	US$1.35/day PPP	US$2.00/day PPP
Indonesia	24.1	40.0
The Philippines	29.5	45.2
Vietnam	16.0	43.2

Source: The Word Bank (2009c)

Table 5: Employment Elasticities in Vietnam, 1996-2007

Sector	1989-1996	2000-2007
Whole Economy	0.36	0.38
Agriculture	0.43	-0.11
Industry	0.27	0.84
Manufacturing	0.28	0.65
Services	0.61	0.63

Source: Dinh, et al. (2009)

Table 6: Average Tariff Rates (in percent)

	1990	1996	2005
China	40.3	16.2	8.9
Vietnam	20.6	15.1	13.1
Indonesia		7.8	6.0
Philippines	27.8	8.0	5.4

Source: The World Bank (2009c)

Table 7: Ratios of Total Trade to GDP and Foreign Direct Investment (Net) to GDP (%)

Year	Indonesia		Philippines		Vietnam		China	
	Ratio of Total Trade to GDP	Ratio of Foreign Direct Investment to GDP	Ratio of Total Trade to GDP	Ratio of Foreign Direct Investment to GDP	Ratio of Total Trade to GDP	Ratio of Foreign Direct Investment to GDP	Ratio of Total Trade to GDP	Ratio of Foreign Direct Investment to GDP
1985	64.57	0.35	52.27	0.04		0.00	38.60	0.54
1986	66.76	0.32	57.59	0.43		0.00	35.18	0.63
1987	68.76	0.51	64.15	0.93		0.00	31.55	0.86
1988	59.48	0.65	70.28	2.47		0.03	32.38	1.04
1989	59.27	0.67	74.07	1.32	27.57	0.06	31.94	0.99
1990	60.67	0.96	76.17	1.20	27.14	2.78	29.22	0.98
1991	65.38	1.16	78.47	1.20	28.60	3.90	30.84	1.16
1992	67.95	1.28	83.29	0.43	32.17	4.80	32.27	2.67
1993	66.69	1.27	88.85	2.28	36.47	7.03	35.71	6.37
1994	70.98	1.19	99.60	2.48	52.38	11.94	37.14	6.23
1995	74.51	2.15	108.54	1.99	63.33	8.59	35.81	5.12
1996	74.22	2.72	119.06	1.83	86.71	9.71	32.62	4.92
1997	78.80	2.17	130.42	1.48	89.15	8.27	34.91	4.92
1998	93.35	-0.37	107.88	3.51	87.13	6.14	34.08	4.62
1999	59.37	-1.96	104.53	2.27	92.59	4.92	37.58	3.91
2000	71.44	-3.03	108.90	1.77	112.53	4.16	44.24	3.55
2001	70.28	-2.29	107.00	1.37	108.57	3.98	45.01	3.76
2002	65.63	-0.87	107.39	2.30	118.30	3.99	53.02	3.88
2003	65.20	-0.29	110.46	0.40	135.14	3.70	60.64	3.78
2004	73.96	0.75	114.28	0.76	158.67	3.56	69.21	2.84
2005	77.23	1.83	112.41	1.14	171.39	3.73	74.35	3.54

Source: The World Bank (2009)

Table 8: Ratios of Gross Fixed Capital Formation to GDP and Gross Domestic Savings to GDP (in percent)

Year	Indonesia		Philippines		Vietnam		China	
	Ratio of Gross Fixed Capital Formation to GDP	Ratio of Gross Domestic Savings to GDP	Ratio of Gross Fixed Capital Formation to GDP	Ratio of Gross Domestic Savings to GDP	Ratio of Gross Fixed Capital Formation to GDP	Ratio of Gross Domestic Savings to GDP	Ratio of Gross Fixed Capital Formation to GDP	Ratio of Gross Domestic Savings to GDP
1985	22.72	29.71	17.45	17.40			29.46	33.64
1986	25.52	28.55	16.81	19.94		4.45	30.37	34.82
1987	25.17	31.73	16.50	17.96		4.77	31.28	36.10
1988	25.63	31.53	17.80	20.06		6.78	30.97	35.75
1989	26.57	35.44	20.82	19.85		4.42	25.66	35.27
1990	28.34	32.26	23.11	18.38		3.33	25.51	37.95
1991	27.00	33.25	20.04	17.22		9.95	27.48	38.11
1992	25.77	33.41	20.92	16.44		13.55	31.22	37.72
1993	26.28	32.46	23.77	15.53		15.49	37.48	41.78
1994	27.57	32.20	23.64	17.75	24.27	16.03	36.05	43.06
1995	28.43	30.59	22.20	14.63	25.42	18.05	34.71	43.13
1996	29.60	30.08	23.42	15.24	26.32	17.13	34.38	41.73
1997	28.31	31.48	24.42	14.44	26.70	20.16	33.78	42.98
1998	25.43	26.53	21.15	13.71	27.02	21.75	35.27	42.34
1999	20.14	19.45	18.75	18.58	25.70	24.77	35.92	40.50
2000	21.81	25.56	21.18	23.07	27.65	27.15	36.46	39.00
2001	21.40	24.86	19.62	17.54	29.15	28.84	37.83	40.88
2002	20.25	22.23	19.24	18.78	31.14	28.66	40.08	43.37
2003	19.72	21.50	18.05	16.25	32.98	27.11	44.24	46.95
2004	21.40		16.70		32.27		38.47	
2005	22.28		15.29		33.04		40.08	

Source: The World Bank (2009a)

Table 9: Sources of Employment Growth in Indonesia, 1975-2005 (in percent)

	Productivity Improvement	Output Growth	Domestic Demand	Export Expansion	Import Substitution	Change in I-O
1975-1980	-115	215	226	72	-78	-6
1980-1985	-6	106	125	19	9	-46
1985-1990	-163	263	327	90	-133	-21
1990-1995	-225	325	355	65	-85	-11
1995-2000	222	-122	-266	144	56	-55
2000-2005	-1,051	1,151	982	63	-98	204

Source: Aswicahyono and Kartika (2009)

Table 10: Labor Share in Manufacturing, by sector (in percent)

Sector	2002	2003	2004	2005	2006
Agriculture-intensive	16.3	15.1	14.4	14.1	13.2
Labor-intensive	49.0	51.3	52.1	52.3	52.7
Capital-intensive	24.6	23.6	23.7	23.5	23.5
Machinery, equipment-intensive	10.1	10.0	9.8	10.1	10.6

Source: Dinh et al. (2009)

Table 11: Poverty Incidence and the Number of Poor People

	at US$1.25/day/capita PPP		at US$2.00/day/capita PPP	
	Incidence (%)	Number (millions)	Incidence (%)	Number (millions)
Indonesia (2005)				
Rural	24.01	27.48	61.4	70.28
Urban	18.67	19.81	46.01	48.81
Total	21.44	47.29	53.99	119.09
Philippines (2006)	22.62	20.24	45.18	40.42
Vietnam (2006)	21.45	18.1	48.59	41.01
Thailand (2004)	0.4	0.25	11.63	7.41
Malaysia (2004)	0.54	0.13	7.88	1.96
Laos (2002)	43.96	2.37	77	4.16
China (2005)				
Rural	26.11	198.37	55.81	424.01
Urban	1.71	9.32	9.46	51.53
Total	15.92	207.69	36.45	475.54

Source: Authors' estimates based on PovcalNet database of the World Bank.

Table 12: Overview of the Indonesian Labor Market, 1986-2008

Indicator	1986	1990	1994	1998	2002	2006	2008
Labor force (million)	67.5	75.4	83.7	89.6	100.8	106.4	111.9
Labor force participation rate (%)	66.5	66.4	66.8	66.9	67.8	66.1	67.3
Female labor force (%)	39.2	38.8	38.9	38.8	37.2	36.3	38.2
Urban labor force (%)	21.6	25.5	31.3	36	41.8	41.4	42.4
Formal Employment %)	28.1	27.6	36.1	35.4	32.3	37.2	38.7
Unemployment rate (%)	2.7	2.5	4.4	5.5	9.1	10.3	8.4

Source: Friawan and Mangunsong (2009)

Table 13: Rate of unemployment and underemployment, 1988-2006

Year	Unemployed			Underemployed			Total
	Openly Unemployed	Discouraged	Total	Visibly Underemployed	Invisibly Underemployed	Total	Underutilized labor
1988	5.5	2.6	8.0	6.8	13.3	20.1	28.1
1991	6.0	2.8	8.8	7.0	11.7	18.7	27.5
1994	4.8	2.2	7.0	7.4	11.8	19.2	26.2
1997	5.0	2.2	7.2	6.4	11.4	17.8	25.0
2000	6.2	3.0	9.1	6.7	10.8	17.6	26.7
2003	6.8	2.2	9.0	7.4	9.0	16.4	25.3
2006	7.4	1.7	9.1	9.2	10.6	19.8	28.9
Percent change							
1991-1997	-1.0	-0.5	-1.5	-0.6	-0.3	-0.9	-1.5
2000-2006	1.3	-1.3	0.0	2.5	-0.2	2.2	2.2

Source: Cabegin, Dacuycuy, and Alba (2009)

Table 14: Different Measures of Disadvantaged Employment in the Philippines, 1991-2006 (share to labor force, in percent)

Year	Unemployed			Underemployed Worker	Total underutilized labor	Fully Employed Vulnerable Worker	Total Disadvantaged Workers
	Openly unemployed worker	Discouraged worker	Total				
1991	6.0	2.7	8.8	18.7	27.5	24.1	51.6
1994	4.8	2.3	7.1	19.0	26.2	26.3	52.4
1997	5.0	2.2	7.2	17.8	25.0	26.3	51.3
2000	6.2	2.9	9.1	17.6	26.7	25.0	51.7
2003	6.8	2.2	9.0	16.4	25.3	29.8	55.1
2006	7.5	1.7	9.2	19.6	28.8	26.7	55.5
Percent Change							
1991-1997	-1.0	-0.5	-1.6	-0.9	-2.5	2.1	-0.3
2000-2006	1.4	-1.3	0.1	2.1	2.1	1.7	3.9

Source: Cabegin, Dacuycuy, and Alba (2009

Table 15: Commodity Composition of Exports

	ASEAN		China		NIES		Japan	
	1990-94	2000-04	1990-94	2000-04	1990-94	2000-04	1990-94	2000-04
Agriculture, Mining & Fuels	32.2	21.6	20.1	9.3	6.8	5.8	2.4	2.7
Total Manufactures	65.2	75.6	78.5	90.1	92.7	93.2	95.8	93.0
Machinery	37.6	51.0	17.4	40.6	36.8	52.6	71.6	67.1
Office, Telecom & Electrical	31.4	45.2	10.3	32.4	25.6	39.6	30.4	27.4
Autos	0.9	1.3	3.0	2.6	3.9	4.9	21.8	20.6
Textiles, Garment, Leather, Rubber, Travel goods, Footwear	11.0	7.5	36.0	23.7	27.7	15.3	3.4	2.7
Other Manufactures	16.6	17.1	25.1	25.8	35.3	25.3	20.8	23.2

Source: Urata (2006)

Table 16: Revealed Comparative Advantage

Reporters		Technology Class	Period 1990-94	Period 2000-04
China and Hong Kong				
	Low Technology	Textiles, Garment, Shoes	4.00	3.33
		Glass, Iron, Steel	1.65	1.64
	High Technology	Electrical, electronics	-	1.70
Indonesia				
	Resources	Agro based	2.27	2.39
		Fuel, mining	-	1.11
	Low Technology	Textiles, Garment, Shoes	2.02	2.05
Japan				
	Medium Technology	Automotive	2.38	2.22
		Process	-	1.04
		Engineering	1.65	1.67
	High Technology	Electrical, electronics	2.11	1.37
South Korea				
	Low Technology	Textiles, Garment, Shoes	2.46	1.13
	Medium Technology	Automotive	-	1.18
		Process	1.72	1.33
		Engineering	1.03	1.11
	High Technology	Electrical, electronics	1.84	2.02
Malaysia				
	Resources	Agro based	2.28	1.48
	High Technology	Electrical, electronics	2.52	2.87
Philippines				
	Low Technology	Textiles, Garment, Shoes	1.63	1.12
	High Technology	Electrical, electronics	1.19	3.60
Singapore				
	Resources	Fuel, mining	2.08	1.68
	High Technology	Electrical, electronics	3.38	3.15
Thailand				
	Resources	Agro based	1.34	1.52
	Low Technology	Textiles, Garment, Shoes	2.36	1.44
	High Technology	Electrical, electronics	1.54	1.69
Taiwan				
	Low Technology	Textiles, Garment, Shoes	2.17	1.20
		Glass, Iron, Steel	2.08	1.63
	Medium Technology	Process	1.07	1.38
	High Technology	Electrical, electronics	2.15	2.43
Vietnam				
	Low Technology	Textiles, Garment, Shoes	-	4.44

Source: Urata (2006)

Table 17: Real Manufacturing Wages/Earnings per Month

Year	Indonesia (IDR earnings)	Philippines (PHP earnings)	China (CNY earnings)	Thailand (THB wages)
1987		74.71	3.42	54.02
1988		81.08	3.48	58.31
1989		84.24	3.26	60.80
1990		89.25	3.45	62.03
1991		88.58	3.68	78.07
1992		90.93	3.99	59.81
1993		88.20	4.42	68.33
1994		91.43	4.55	71.63
1995		90.90	4.70	73.03
1996		86.62	4.74	74.28
1997		87.64	4.85	65.03
1998		85.18	5.82	59.48
1999	3,145.43	86.77	6.51	56.50
2000	3,032.51		7.29	67.95
2001	3,319.09	93.03	8.11	63.28
2002	3,420.99		9.20	59.93
2003	3,630.10	98.12	10.33	61.54
2004	3,698.20		11.15	64.88
2005	3,604.79	99.94	12.30	

Source: Authors' calculations from ILO data (2009)

Table 18: Ratio of Manufacturing Wages/Earnings to Per Capita GDP

Year	Indonesia	The Philippines	China	Thailand
1987		2.54	1.56	
1988		2.63	1.67	
1989		2.67	1.67	1.04
1990		2.80	1.40	1.00
1991		2.91	1.33	0.97
1992		3.07	1.35	0.94
1993		2.98	1.57	1.13
1994		2.98	1.07	0.79
1995		2.87	1.03	0.82
1996		2.64	0.97	0.83
1997		2.58	0.93	0.89
1998		2.54	1.05	0.99
1999	0.69	2.51	1.09	0.92
2000	0.55		1.12	0.86
2001	0.58	2.56	1.14	0.80
2002	0.61		1.18	0.92
2003	0.63	2.52	1.19	0.81
2004	0.61		1.15	0.71
2005	0.55	2.42	1.13	0.68
2006	0.48		1.13	0.68

Source: Authors' calculations based ILO data (2009)

Table 19. Reasons of Changing Job in Indonesia, 2006

Reason	Job to No Job	Job to Job
Change Job	41.26	58.74
Job-dismissal	62.52	37.48
business stopped	39.49	60.51
Insufficient salary	29.51	70.49
Bad work environment	45.50	54.50
Other	37.72	62.28

Source: Wicaksono and Hirawan (2009)

Table 20: Net Change in Employment in the Philippines (YOY, in thousands)

SECTOR	2007				2008				2009
	Jan	Apr	Jul	Oct	Jan	Apr	Jul	Oct	Jan
Total	1,514	1,005	392	786	148	-168	1,279	861	565
Agriculture	-51	583	-227	-	152	41	614	-	61
Agriculture, hunting and forestry	-52	437	-210	153	213	184	595	103	38
Fishing	33	112	-49	-34	-61	-108	19	70	23
Industry	96	26	193	-	22	-261	-77	-	-122
Mining and quarrying	6	5	2	3	1	-34	5	38	2
Manufacturing	74	-105	3	39	-88	-183	-125	-163	-122
Electricity, gas and water	6	4	34	3	1	-1	5	3	2
Construction	12	121	153	140	75	-9	36	114	-39
Services	1,469	430	459	-	-26	18	709	-	626
Wholesale and retail trade	481	-4	42	12	-73	-99	244	365	312
Hotels and restaurants	108	-39	44	-12	4	63	69	23	16
Transport, storage and communication	86	76	163	126	45	21	-107	-3	10
Financial Intermediation	15	10	37	9	35	32	14	9	-28
Real estate, renting and business activities	169	125	43	86	4	29	136	91	118
Public administration and defense, compulsory social security	134	46	18	70	74	126	197	110	27
Education	47	-3	78	57	38	28	6	61	87
Health and social work	50	11	4	42	2	-2	14	10	41
Other community, social and personal service activities	103	94	10	18	-30	-105	-3	20	14
Private households with employed persons	309	147	21	72	-126	-75	102	43	29
Extra-territorial organizations and bodies	-	-	-	-	-	-	-	-	-

Source: Pascual (2009)

Abstracts

Globalization, Adjustment and the Challenge of Inclusive Growth Project: Philippines

Productivity, Employment and Economic Fluctuations The Philippine Case

Michael M. Alba & Lawrence B. Dacuycuy

Significant structural reforms have taken effect in recent Philippine macroeconomic history. Prior to the implementation of such reforms, the country followed the flawed policy of import substitution that resulted in dismal productivity and slow economic growth. Interestingly, the effects of the business cycle on productivity prior to the 1980s are less substantial relative to effects from 1980 onwards, during which most structural reforms were implemented. Output fluctuations after the 1980s were also quantitatively different from those observed before the 1980s. This highlights the importance of investigating the link between economic fluctuations and productivity growth, or what is known as the Total Factor Productivity Growth (TFPG) -business cycle structure interaction. The study deviates from the usual treatment of productivity analysis by exploring the empirical existence of the interaction between productivity and economic fluctuations during the business cycle. It investigates two hypotheses: (1) if the long run effect on productivity of a positive temporary shock to employment is negative, it implies that the economy retools during recessions. This supports the idea that an economy can recover after periods of economic contraction. If the long run effect on productivity of a positive temporary shock to employment is positive, this suggests learning by doing. (2) if the long run response of employment growth to Total Factor Productivity (TFP) is positive, it implies that rapid technological progress will enable new firms to enter the market and increase employment opportunities. If the long run response of employment growth to TFP is negative, it suggests a process of creative destruction. To test the hypotheses, the study uses structural VAR. Findings suggest that when a technological shock is used as a stimulus of productivity growth, the long run negative effect on employment growth favors the creative destruction hypothesis. On the other hand, when employment shocks are used, the long run response of TFPG is negative, indicating that the business cycle-productivity link is likely via the opportunity cost explanation.

Key Words: import substitution, trade liberalization, business cycles, creative destruction, and opportunity cost

The Incidence and Character of Disadvantaged Labor In the Philippines

Emily Christi A. Cabegin, Lawrence Dacuycuy & Michael Alba

As globalization intensifies, policy makers have shifted to examining how social safety nets can be set up and implemented to temper the negative effect of globalization in the labor market. The concept of the disadvantaged worker is not a new one. However, the taxonomy capturing discouraged workers has evolved to encompass previously ignored categories that reflect the increasingly dynamic nature of the labor market over time. The paper formulates various definitions that can capture the essential characteristics of disadvantageous labor in the Philippine setting. This responds to the prevalence of cases in which the existence of segmented labor markets, incidence of high underemployment, and prevalence of poor workers with inferior choices continue to characterize and shape the labor market landscape. The paper uses statistical analysis to characterize trends for disadvantaged labor, using the country's macroeconomic history as a backdrop. No other study has analyzed the time series properties of measures of disadvantaged labor and informal sector employment. Analyzing cycles and stochastic trends is important for evaluating whether shocks from the various disadvantaged worker's definitions are permanent or recurrent. The study also uses a more descriptive method to present the informational concerns as to the usefulness of common measures of assessing the true state of worker's welfare. The Philippines' problems with its labor sector concern not only unemployment, but also focus on the twin problems of underemployment and poverty. Open unemployment is worsening and the magnitude of workers who are either underemployed or in unprotected employment continues to increase. Among the policy implication resulting from the analysis is the need to shift the focus from just mitigating unemployment to the generation of more adequate and secure employment opportunities. Given the large share of the better-educated within the unemployed labor force and the dominant contribution of the least-educated to the reservoir of the underemployed workers and those in unprotected full-time employment, there is a need to direct attention towards improving the employment conditions or generating jobs that would uplift the condition of the poor.

Key words: disadvantaged workers, workers' welfare, disadvantaged employment, unemployment

Globalization, Industry Adjustment and Employment Drivers
Winfred Villamil, Rachael Reyes & Joel Hernandez

The Philippine economy has undergone an unconventional structural transformation, as shown by the changing shares of agriculture, industry and services to GDP as well as the employment levels within these three major sectors. The share of industry, particularly manufacturing, also declined while that of the services sector expanded. This study analyzes the actual and potential impacts of the growth in the BPO sector on employment and inclusive growth. The study also undertakes a comparative analysis of the relative performance of two key industries namely the textile and garment industry and the ICT-based industries in the country throughout the period during which the country liberalized trade. The authors employ the use of an impact analysis to quantify the effect of the sectors' activities on the relevant variables in the economy such as output, compensation and employment after analyzing the performance of the manufacturing sector and the BPOs. Analyses of the manufacturing sector suggest that (1) there is a need to exploit the new competitive advantage which is the abundance of an educated and highly trainable workforce; (2) infrastructure support is of crucial importance; and (3) survival under globalization necessitates a continuous process of adjustments by domestic firms. Industry analysis of the BPO sector shows that its strong performance today, which makes it a contributor in driving growth and employment in the country, is already being threatened. Active and adaptive responses such as better marketing, market-and capacity-building are deemed necessary to remain and become even more competitive locally and globally in the future. Finally, for both the electronics and garments industries, the output multiplier has declined during the period 1994 to 2000 with it being more apparent for the garments industry. Likewise, the output multiplier for the BPO sector is the lowest among the three sectors of interest although its compensation multiplier is the highest among the three.

Key words: industrial relations, ICT, comparative advantage, infrastructure support, employment driver

The Challenges of Firm-Level Adjustment, Productivity and Workers Welfare Under Globalization: Case Studies, Insights and Policy Recommendations
Jorge V. Sibal, Rene E. Ofreneo & Wilson Tiu

Social partnerships in Industrial Relations (IR) are manifested through the various forms and approaches of employee participation, employee involvement and ownership schemes adopted by firms. In the Philippines, the most common of these forms are Labour-Management Councils (MCs), Quality Circles (QCs), joint-consultation meetings, work teams, social compliance committees, and such joint programs or projects between employer and labor on productivity and decent work. Considering that the country is experiencing economic growth and increased foreign investments due to globalization, the Philippines can develop its competitive edge in the areas of human resource development (HRD), industry productivity and labor empowerment. In this paper, the authors feature case studies of firms that have successfully practiced the various mechanisms of employer-labor partnership in the Philippines. Specifically, they feature good practices in; (1) Labor-Management cooperation in unionized workplaces, (2) non-manufacturing unionized workplaces, (3) unionized workplaces in the regions, and (4) non-unionized workplaces. The authors likewise draw out summaries from these practices and list down policy recommendations in order to enhance these emerging trends. Case analyses show that industrial peace is the most observable benefit of LMCs to management and workers, saving money and improving productivity. Evidence shows that good practices are borne out of specific interactions among actors in a particular workplace and within a specific set of environments. Among the 12 policy recommendations, the authors suggest that there is a need to cascade these good practices down to smaller firms, to involve the stakeholders and subcontractors, and transform the various social accords into concrete activities.

Key words: jobless growth, industrial relations, employer-labor relationship, social partnership, labor management councils

Industry Churning, The Labor Market and Workers' Welfare
Clarence Pascual

Globalization and the related policy reforms of trade liberalization, privatization and deregulation are all widely believed to have increased the rate of industry churning. While a certain amount of displacement is a necessary feature of a capitalist economy, concern about the workers' welfare has increased as globalization has accelerated worker turnover. While there is no shortage of public concern about the negative impact of reforms on labor, the impact of job loss on workers' welfare is little explored in the local literature – thus the purpose of this study. In this paper, the author conduct a non-random survey supplemented by interviews and focus group discussions of displaced workers in order to generate basic data on the characteristics of affected workers and the lost jobs, the post-displacement experience of affected workers, and the economic and non-economic effects of job loss on workers and their families. The study settled on four (4) cases involving companies which had resorted to permanent closure or retrenchment of their workforce, but only used two companies for statistical analysis: Pilgrim Fashion and Novelty Philippines, generating 12 data points for discussion. Results of the study show that there were low re-employment rates for displaced workers and even more dismal impacts for regular workers, and that economic insecurity figures prominently as a cost of job loss and adverse impacts on workers' health and well-being. The author concludes that policymakers can intervene in at least three areas: (1) adopting policy measures to alleviate the plight of displaced workers, (2) more closely examining the changed nature and quality of work in recent decades, and (3) assessing structural changes and economic reforms in terms of overall employment prospects.

Key words: welfare loss, worker displacement, re-employment rates, economic insecurity, temporary employment

Industrial Relations, The Regulatory Environment, and Inclusive Growth
E.F. Esguerra and K.S. Canales

Despite the rapid growth of Asian developing economies, more than half of the population in these economies continues to live in abject conditions. Inequalities in income and access to social services are likewise on the rise, threatening to subvert to social and economic progress thus far attained. Increasing concern over the negative consequences of inequitably shared prosperity has thus pushed inclusive growth to the forefront of the development policies and strategies of an increasing number of developing Asian economies. In the Philippines, a number of observed labor market outcomes suggest failures of the market, which have resulted in far too limited opportunities for economic advancement for a significant fraction of the labor force. This paper analyzes industrial relations and the regulatory setting of the labor market from the perspective of inclusive growth. Specifically, the authors describe (1) a number of labor market outcomes to indicate the non-inclusive character of growth, with particular interest in shifts in the allocation of labor across sectors, occupations, and regions; and (2) the policy and institutional environment of the Philippine labor market, tracing its evolution, focusing on wage fixing, hiring and firing policies, labor flexibility and dispute settlement. The authors emphasize the challenge to promote an environment in which, on the one hand, private firms enjoy the flexibility that is required for them to thrive, and on the other hand, labor receives its fair share and is reasonably protected. Results show that it is important to look at publicly-provided income support for the unemployed as merely one element in a package that seeks to alleviate the cost of joblessness, the other two being retraining and better-quality labor market information.

Key words: inclusive growth, labor flexibility, dispute settlement, industrial relations regulatory setting, bargaining power

Globalization, Adjustment and the Challenge of Inclusive Growth Project: Indonesia

Trade, Growth, Employment, and Wages

Haryo Aswicahyono and Pratiwi Kartika

The increasing interest in inclusive growth has heightened the need to investigate the recipe for growth for all; to this end, knowing the relationship between economic growth and labor is of great importance. In Indonesia, the country's economic growth rate and unemployment rate might indicate an elusive relationship between both indicators. Although there is substantial literature attempting to explain the relation between economic growth and employment, little research investigates the channel through which GDP growth affects employment according to the components of GDP. It still remains for researchers to identify the sources of Indonesian labor enlargement by employing a more complete input-output dataset, i.e., for the period 1975-2005. This study attempts to learn from the country's experience during that time period about the importance of the following factors in creating employment: labor productivity, domestic demand, export expansion, and import substitution. A discussion on the nation's economic policy since independence is undertaken, with a brief literature review on the issue of the elasticity of employment with respect to economic growth, some descriptive statistics on labor issues, and the development of labor policy in Indonesia. Results suggest (1) a significant correlation between years of rapid GDP growth and those of large employment growth, (2) that the source of labor expansion in pre-crises era was mostly from domestic demand and (3) government intervention also affects labor market performance.

Keywords: inclusive growth, input-output decomposition method, domestic demand, export expansion

The impact of globalization on labour market performance: a case study of the Indonesian textile and garment industry

Dionisius A. Narjoko, Pratiwi Kartika, and Indira Hapsari

Greater exposure to the global market is believed to be beneficial to a country's economic development. However, this has put pressure on firms to become more competitive and to bring down their costs through business linkages between small and large firms, and industrial clusters which use flexible specialization. In the case of Indonesia, despite promising expectations over the expiration of quotas, some studies show that these quota expirations generate an imbalanced impact, with some countries enjoying the benefit of the expiration and others facing the risk decreasing market shares. In this study, the authors examine the impact of globalization on industrial adjustment, competitiveness, and their impact on labor market performance. The authors construct the database for empirical analysis from the annual manufacturing surveys of medium- and large-scale establishments from 1993 to 2000. Empirical evidence is mixed; some of it indicates a positive impact of globalization, but there are also other parts of the results that indicate a negative impact particularly when such impacts are examined in general through clustering channels and in terms of competitiveness. The authors infer that the impact of globalization on labor market performance cannot be generalized as it tends to be sector-specific and dependent on factors like time. As for the case of the Indonesian textile and garment industry, much of the globalization impact post the 1997-1998 crisis could be attributed to the dramatic change in firm competition in the global market.

Keywords: textile and garment industry, globalization, labor market performance

Globalization, Industry Adjustment, and Employment Drivers
Pratiwi Kartika

Trade and investment liberalization, brought by globalization, creates not only opportunities for countries to develop and grow, but also risks and negative impacts that will be faced by different sectors. Indonesia's efforts to hasten trade liberalization and foreign direct investments (FDI) in the mid-1980s increased the demand for labor. It created employment for Indonesian laborers, including the country's disadvantaged workers. The trade liberalization efforts also increased the wages of laborers, which led to improving workers' welfare. Nevertheless, the unemployment rate, underemployment rate, and incidence of low income workers remained high. Discrimination among female workers and unskilled laborers were still prevalent and the wage differential across groups is still high. The paper identifies the different determinants of earnings in Indonesia. Ordinary Least Squares method and the Mincer-type earning function in urban and rural areas in 1986, 1992, 1998, and 2004 were used to estimate the different determinants. The study uses data from the Central Statistics Bureau (CBS) and the National Labour Force Surveys. The estimates verified that education and experience positively contribute to an individual laborer's earnings; the laborer's place of work played a significant role in determining the wage differential. It was also proven that the FDI flows significantly increased the earnings of laborers. The paper provides policy suggestions to increase the creation of jobs for disadvantaged workers.

Keywords: Trade liberalization, disadvantaged workers, wage differential, foreign direct investments

The Challenge of Firm Level Adjustment, Productivity, and Worker's Welfare Under Globalization: Case Studies, Insights and Policy Implications
Ira Setiati and Widdi Mugijayani

Over the years, reforms in Indonesia created fundamental changes that have resulted in a more democratic political setting, more decentralized government, and the emergence of new enterprises in the business sector, which was dominated by a few conglomerates before the crisis. As these changes have taken place, the complex relationship between employees and employers in Indonesia has also been substantially transformed. The study captures how investing in human capital facilitates industrial upgrading and inclusive growth. It will also provide a brief outlook on the external environment that may influence the relationship between employees and employers. The study extends to existing Indonesian companies that have endured external pressures since the 1990s and have continued to expand their businesses without shrinking their labor force and profitability. It examines the different companies' public reports and conducts firm-level interviews with human resources (HR) consultants and experts to establish their best practices. A second round of interviews with the companies' officials was carried out to verify the application of these best practices. The interviews revealed that while most of the companies agreed that their human resources are assets to their businesses and workers, and participation practices were seen as a key factor to improve workers commitment to organization performance, only a few have implemented modern HR management principles. Only businesses engaged in the oil and tobacco industry have built-in HR management systems since they experience greater exposure to international competition. The other reason that companies implement such systems is to demonstrate their commitment to basic human rights. The interviews also revealed that there is no need for government regulation to compel Indonesian companies to adopt workers participation practices.

Key words: best practices, workers' participation, industrial upgrading, inclusive growth, modern HR system, employer-driven

Industry Churning, Labor Market, and Workers Welfare

Teguh Y. Wicaksono and Fajar B. Hirawan

Increased exposure to international commerce and a reduction of domestic barriers create winners and losers in any industry. The gains and losses from trade incurred by workers vary depending on skill levels and the sector involved. Economic openness may destroy old jobs even as it creates new ones. In Indonesia, the emergence of dislocated workers is due to structural changes needed for industries to adjust to the liberalization process. The Asian crisis created remarkable changes in the structure of the Indonesian labor market. Employment shifted from the formal to the informal sector; in addition, the characteristics of Indonesian workers losing their jobs could be different from the pre-crisis period. The research profiles the characteristics of workers who lost their jobs during the liberalization period, emphasizing the determinants of the probability of employees losing their jobs. Further analysis also addresses the worker groups that are most vulnerable to welfare change during economic shocks. In identifying those who are prone to losing their jobs during industry churning, the study focuses on identifying job fluidity through job creation and job destruction frameworks. Such an approach largely utilizes the dynamic aspects of employment from an industrial perspective and uses data on manufacturing surveys of medium and large-scale establishment from 1990 to 2005. A second approach identifies worker flow across economic sectors, which observes job flow from the workers' perspective. The approach uses data from the National Labor Force Survey. The results of the profiling reveal that female workers attaining senior high school education and working in a medium growth sector will more likely lose their jobs and, also, are more likely to have a hard time finding new jobs. The researchers' industrial level estimation shows that job creation and job destruction is closely associated with the state of output growth of the industries, employment size, and the age of establishment. At the worker level, the job transition from informal sector with low pay to the formal sector with job security hardly happens anymore. The research finds that most workers who have lost their jobs would rather remain unemployed than seek reemployment.

Key Words: labor transition, industry churning, job fluidity, worker flow, Job Creation, Job Destruction, Job Reallocation rate

Political Economy of Industrial Relations in Indonesia: 1980-2004

Raymond Atje, Mochamad Pasha and Undin Silalahi

Traditionally, the Indonesian government's main concern has been political stability, and freer labor movements were perceived as potential threats to that stability. In industrial relations, the government has often applied a top-down approach; labor movements were tightly controlled. This research argues that Indonesia's labor market has been transformed by the Asian crisis and the subsequent political reform from a relatively flexible state before the crisis to a relatively rigid state after the crisis. Indonesia continues to have an abundant labor supply yet its labor market remained rigid after the crisis due to the pro-labor regulations implemented by the government. An important lesson Indonesia can draw from the post-crisis industrial relations environment is that when an industrial relations regime favors one party over the other, problems will occur. In Indonesia's case, the labor market became rigid. This has imposed costs upon both employers and employees, as the former hired contractual workers to do core production activities and the latter had a hard time seeking jobs and reemployment.
The existing industrial relation regime distorts the delicate balance between management and labor. Through clearer legislation, the government can address and balance the rights and responsibilities of employees and employers.

Key Words: industrial relations, labor's cost of replacement, labor welfare, rent seeking activities, political interference, firing costs, economic shocks

Globalization, Growth, and the Face of the Disadvantaged Labour in Indonesia: Analysis and Policy Implications

Deni Friawan & Carlos Mangunsong

Under globalization, trade and investment liberalization creates not only opportunities, but also risks and unequal impacts on different groups. In Indonesia, the high growth of labor-intensive manufacturing industries has provided employment opportunities and increased the wages of Indonesian workers, but also reveals increasing discontent among workers employed. However, studies that analyze the negative impact of globalization on the Indonesian labor sector have been quite scarce. In this study, the authors analyze the impact of globalization on the Indonesian labor market with a focus on the disadvantaged worker in Indonesia and the demand side of the labor market. Specifically, they run a standard determinants-of-earnings regression model and the classical Oaxaca-blinder method using data from the National Labor Force Survey collected by the Central Statistics Bureau (CBS) of Indonesia. The authors find that although the strong broad-based and sustained growth has created additional labor demand which in turn provided more employment and increased wages for most Indonesian workers, some negative impacts nevertheless remain high. These include the number of disadvantaged workers, the unemployment rate, underemployment rate, and the incidence of low income workers in younger, female and less educated worker groups, especially those who come from poor families. In addition, the increasing incidence of unemployed workers, underemployed workers, and low earning workers during the crisis in youth, female and less educated workers made them likely to be more vulnerable in the labor market. Finally, the authors conclude that any kind of policy that supports job creation and better earnings should be targeted at these disadvantaged groups.

Keywords: disadvantaged workers, globalization, determinants of earnings, decomposition method

Globalization, Adjustment and the Challenge of Inclusive Growth Project: Vietnam

Trade, Growth, Employment, and Wages in Vietnam: Globalization, Adjustment and the Challenge of Inclusive Growth

Dinh hien Minh, Trinh Quang Long, and Nguyen Anh Duong

Globalization’s focus on trade and investment, liberalization, and internationally tougher competition all exert enormous pressure on Vietnam to shift its economic structure further away from low technology industries toward the higher value added products of modern technology. If this is to happen, labor in these industries must also be sufficiently skilled. The research clarifies the interactions between growth, shift in economic structure, job creation, and wage improvement, using the criterion of high and sustainable growth in the context of economic integration and industrial policy reform. It adopts both qualitative and quantitative measures of citing information from other studies and the computation of total factor productivity (TFP) growth under the growth accounting framework and elasticity of employment to growth to measure the relationships among economic growth, employment, and wages in Vietnam. The country has achieved many significant improvements such as rapid economic growth and industrial upgrading that improved the income distribution. Vietnam has also benefitted, albeit less significantly, in terms of job creation from policy reform, international economic integration, and the shift in employment structure by sector. However, these were still below the country’s potential. The growth patterns of employment and GDP per employee across the sectors showcased the slower shift in employment structure compared to that of economic structure. Sizeable income gaps between industrial and agricultural sectors also still exist. Furthermore, the contribution of TFP growth to economic growth was small and the country’s employment elasticity was relatively smaller compared to other countries, indicating the fluctuations and a relatively horizontal pattern of economic growth.

Keywords: Total Factor Production, employment elasticity to growth, international integration, economic reforms

Globalization, growth and the face of the disadvantaged labour: analysis and policy implications

Pham Lan Huong, Bui Quang Tuan, Tran Thi Ha

Vietnam's regional integration efforts and World Trade Organization (WTO) membership affect the economy, sectors, regions, and groups in different ways, with some segments enjoying favorable impacts, and several others adversely affected. A stylized fact about globalization is that the benefits from foreign direct investments and foreign trade appear to be biased towards more skilled workers. This suggests that increased foreign investments may lead to greater income inequality. The study attempts to enrich the understanding about disadvantaged workers, who are most adversely affected by economic development and globalization in Vietnam. The study profiles the facts and trends concerning disadvantaged workers by estimating the determinants of earnings by disadvantaged wage earners. It also decomposes the profiles of disadvantaged and non-disadvantaged wage earners using the Blinder-Oaxaca Decomposition Method and a Probit model. Findings indicate that a large proportion of disadvantaged wage earners resides in the rural areas and is engaged in the agricultural sector. Most of the disadvantaged laborers in Vietnam do not possess school diplomas. The study also verifies such findings, confirming that education, skill, and experience positively affect the earnings of workers. Furthermore, the more complex and technical the job is, the less probability that the worker falls under the disadvantaged category. Thus, education, experience, and skill are important in improving productivity, management, and output that lead to higher incomes. The results of the regression also show that gender plays a significant role in generating income. Male workers tend to earn higher incomes and are less likely to fall within the disadvantaged group. The Oaxaca decomposition analysis also shows that the discriminatory part of the earning gap is found to account for most of the earning differentials. The research finds that economic growth and deeper integration propelled by globalization appears to have favorable impacts on the country's disadvantaged workers.

Keywords: disadvantaged workers, globalization, determinants of earnings, decomposition method

Globalization, Industry Adjustment, and Employment Tendency in Vietnam's Textile Industry

Nguyen Thi Lan Hu'o'ng, Luu Quang Tuan, Nguyen Thi Lan, Pham Ngoc Toan, Hoang Thi Minh, Pham Minh Thu & Le Hoang Dung

Globalization presents Vietnam with an opportunity to participate in global production networks and increase its gross output. However, globalization also throws up a number of challenges, specifically to the country's textile and garment industry because of their historically low levels of management, technology, labor quality, and insufficient auxiliary industry and material sources. As a result, the industry's competitiveness is low and the value added in the global production chain is insignificant. The study analyzes the position and employment tendencies of Vietnam's textile and garment industry as it deals with the impact of globalization. It uses descriptive statistical method of data from GSO and qualitative analyses employing in-depth interviews with managers, policy makers, associations, and workers to measure the production performance and competitiveness of the industry. By joining global production networks, Vietnam's textile and garment industry has achieved the following: (1) the production value and market share of the industry has gradually increased over the past years. The industry's export value surpassed that of crude oil; (2) productivity in the industry has increased and the annual growth rate is higher. The industry is gearing towards improving working quality and technology to raise the effectiveness and efficiency of production. However, the industry is also challenged by the impact of trade liberalization. The enterprises in the industry have a hard time competing with rivals in the global playing field. Due to poor labor quality, the prices of textile and garment products are higher compared to other countries, creating a disadvantage for Vietnam in price competition. The study also shows that the garment sector experienced greater development than the textile sector. The imbalanced development of textile and garment sector is also an obstacle for the sustainability of the industry's development.

Key Words: globalization, competitiveness, sub-contracting, international market, liberalized trade, high technology-content production

Challenges In The Adjustment Of Enterprises, Labor Productivity And Labor Wefare On Firm Scale Under Impacts Of Globalization

Cu Chi Loi, Pham Sy An, Nguyen Cao Duc, Tran Thi Kim Chi, Bach Ngoc Thang, Phi Hong Minh

The impact of globalization on enterprises, labor productivity, and worker welfare consist of both positive and negative aspects. Which of the two has a bigger effect depends on the economy's nature, policies, and integration measures taken by the country's government. The impact of deeper integration of Vietnam's economy on the development of enterprises, labor market, and worker welfare are carried out in this research. The paper provides a macroeconomic overview of the impacts of globalization on firms and labor market and studies the challenges enterprises face in their adjustment process. The paper also offers an insight on the experience of enterprises and responses on the impact of integration based on the 2007 investigative data of more than 300 firms from the Vietnam Institute of Economics. On the microeconomic scale, the impact of globalization will be analyzed by using case studies and interviews with enterprises' managers. The results reveal that the biggest challenge brought by globalization is pressure from increased competition. The severe competition brought by the country's participation in the global production chain generates pressure on companies to reduce wages and worker welfare. Despite the reduction, government regulations and trade unions ensure that the same level of wages and social welfare are maintained. The adjustments companies have undergone include finding new markets and enhancing investments to import and improve the technology necessary for their operations. In interviews with the workers from the textile, cement, furniture, and electronics industries, all responded positively that their welfare were ensured by the companies in the form of health and social insurance, maternity and sick leaves, and overtime payments. Only two companies, due to their production process, are facing problems such as dust and noise that may decrease the welfare of their workers.

Keywords: globalization, trade liberalization, unskilled labor, retraining, structural adjustment, Vietnam

Impact Of The Globalizaton Industry Shift, Labor Market And Worker's Benefits

Nguyen Thi Lan Huong, Nguyen Trung Hung, Nguyen Huyen Le, Chu Thi Lan, Vu Duy Du, Nguyen Thi Hanh, Tran Thi Bich Thuy

The process of industry and enterprise restructuring causes labor market changes in three ways: better employment, unemployment, and change of jobs. The experiences of other countries show that the more stable the economy and the better the labor policy are, the smoother the shift of employment will be and the less structural unemployment will result. Globalization's social impact in relation to the labor market is still viewed as problematic with regard to the number and quality of jobs, income and redistribution of income, and regulations in the market. The paper aims to understand the impact of industry shift, enterprise reform on the labor market, enterprise restructuring, and reemployment. At the same time, the study considers the change of employment and income of those working or who have worked in enterprises affected by globalization and trade shocks (such as anti-price dumping policies). A macro-level assessment of the impact of globalization on employment and workers' benefits is done in the study and case studies of workers losing their jobs are used to study the changes in employment, income and livelihood, and trade shocks. Upon evaluating the data from GSO, international and domestic experiences confirm that economic integration positively affects employment in the export-oriented sectors and labor-intensive industries. However, the emergence of unemployment and partial unemployment during the integration process show that employment is volatile and the income gap between sectors increased. The survey conducted reveals the profile of a redundant worker: aging, not highly skilled, and works in processing, construction, or agricultural industry. In addition, most of them earned more prior to becoming redundant workers, but there has been only a minimal change in education and technical skill between the pre- and post-redundancy periods.

Keywords: globalization, trade liberalization, redundant labor, structural adjustment, Vietnam

Globalization, Industry Adjustment And Employment Trend (The Case Of Vietnam's Tourism Industry)

Nguyen Thi Lan Huong, Nguyen Thi Lan, Liru Quang Tuan, Pham Ngoc Toan , Hoang Thi Minh, Pham Minh Thu, Le Hoang Dung

Tourism is considered a long-term strategy for job creation and the promotion of a country's culture. However, there have emerged a number of negative effects associated with tourism, such as ecological imbalance, gradual loss of national culture values, and the increase of social evils. Vietnam's tourism industry is facing many challenges due to the way it currently manages the industry. The challenges coming from the ineffective use of natural resources, insufficient attention to ecological issues, lack of skills, substandard tourism infrastructure, and an unsound competitive business environment must all be overcome lest Vietnam be left behind by more developed countries such as Thailand, Singapore, and Malaysia. As such, it is necessary to study the impacts of globalization on the development of Vietnam's tourism industry in order to reveal the adjustments needed to maximize the industry's contribution to economic growth and job creation. The research employs descriptive statistics of data gathered from GSO and Vietnam National Administration of Tourism. It also uses qualitative analysis and consultations with experts on the impacts of integration on the labor market. The results confirm that two thirds of investment in the industry is in hotel and restaurant businesses. Despite this, Vietnam's tourism is not meeting the increasing demand for good quality hotels since most of the tourism enterprises are small scale with the total employee counts of fewer than 50. Also, unfortunate events such as the Asian crisis, SARS, the bird flu virus, and other natural disasters have hampered the industry's revenue and contributions to economic growth. Vietnam's tourism has not fully exploited its competitive advantage in natural resources. The lack of tourism infrastructure, labor quality, and a reliable legal framework are still hindering the industry's development.

Keywords: tourism, globalization, tourism services, diversification, Vietnam

Industrial Relations And The Regulatory Environment In The Labor Market

Nguyen Manh Cuong

The Vietnamese Labor Code has laid the legal foundations for running and regulating industrial relations in the economy. However, industrial relations practices in Vietnam are still in the early stage of development. Strikes and labor disputes have been on the rise since 2006 and all strikes did not follow the stipulations of the law on labor action. Facing the complicated situation of labor disputes and strikes, the Vietnamese government together with employer and employee organizations has tried various measures to reduce the risk of labor disputes by amending the Labor Code. However, the disputes and strikes situation in the country has not changed despite the amendments to the law. The study aims to identify the factors that shape industrial relations in Vietnam and to propose short term and long term policy recommendations to stabilize industrial relations and to protect the rights and interests of workers. Data and information analysis and consultation among the experts in the labor market are used in the study. Findings show that the factors that have direct impacts on the country's industrial relations are low labor supply and high demand for wages, economic difficulties caused by the different macroeconomic variables such as inflation and shrinking export markets, poor working conditions, and public opinion about strikes and labor disputes. These factors do not support the harmony required by industrial relations.

Keywords: industrial relations, labor disputes, labor welfare, labor agreements, Vietnam