



Employment and Skills Strategies in Southeast Asia Setting the Scene

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EMPLOYMENT and
SKILLS
STRATEGIES in
SOUTHEAST
ASIA

About the ESSSA Initiative

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

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The OECD Programme on Local Economic and Employment Development (LEED) has advised government and communities since 1982 on how to respond to economic change and tackle complex problems in a fast-changing world. It draws on a comparative analysis of experience from some 50 countries in the Americas, Asia, Australasia and Europe in fostering economic growth, employment and inclusion. For more information on the LEED Programme, please visit www.oecd.org/cfe/leed.

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Executive Summary

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

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

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

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

Lack of decent and productive employment

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

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

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

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

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

Need to reform labour market institutions

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

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

Skills mismatch is evident

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

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

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

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

Poverty reduction still challenges development in the region

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

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

Growth of the informal economy is not slowing down

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

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

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

Migration and mobility represent both challenges and opportunities

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

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

Impact of Free Trade Agreements (FTAs) remains largely unexplored

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

Industrial composition is fragmented

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

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

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

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

Lack of entrepreneurial development linked to productive activities

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

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

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

Policy recommendations

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

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

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

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

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

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

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

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