Labour Markets in Transitional Economies in Southeast Asia and Thailand

Cambodia Development Resource Institute

Cambodian Institute for Cooperation and Peace

Central Institute for Economic Management (Vietnam)

Institute of Economics (Vietnam)

National Economic Research Institute (Lao PDR)

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Thailand Development Research Institute

DEVELOPMENT ANALYSIS NETWORK

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Foreword

The Development Analysis Network (DAN), which formed in 1997, is a network of research institutions in Thailand, and the Southeast Asian Transition Economies (SEATEs), namely Cambodia, Laos and Vietnam. It was set up to conduct comparative research on topics of common interest. The funding for the two initial DAN planning meetings came from the United Nations Development Programme, and it allowed scholars from the concerned countries to meet in order to elaborate a joint research agenda. The International Development Research Centre of Canada has subsequently provided the financial support for the work of DAN and its publications.

The institutions participating in DAN are: the Cambodia Development Resource Institute and the Cambodian Institute for Cooperation and Peace, in Cambodia; the National Statistical Centre and the National Economic Research Institute, in the Lao People's Democratic Republic; the Central Institute of Economic Management and the Institute of Economics, in Vietnam; and, the Thailand Development Research Institute, in Thailand. The Cambodia Development Resource Institute acts as the network's coordinator.

The first phase of the network's research was conducted in 1998-99 on the impact of the Asian financial crisis on the SEATEs and Thailand. This was successfully concluded with the organisation of a dissemination Conference in Phnom Penh, in January 1999, and the collected papers were subsequently published as a book.

The second, and present round of DAN research has concentrated on labour markets. The impetus to undertake research on this topic began with the Asian financial crisis that rendered large numbers of people jobless and increased the suffering of the poorer sections of society. In addition to being vulnerable to influences from beyond their borders such as the financial crisis, the transition economies also

suffer from structural underdevelopment.

The findings of this second phase of DAN research were disseminated in a Conference held in Laos in December 2000. Since then the papers have been revised and edited, and with this volume, have now been published.

The findings of these studies suggest that labour issues are daunting in all four countries. Problems arise to varying degrees from multiple sources – external shocks, internal political uncertainties and/or economic management, the challenges of poor infrastructure and underdeveloped human capital. Open unemployment is largely not visible in these countries because the poor can scarcely afford to stay jobless and also the agrarian and informal sectors shelter many more persons than what the principles of productive employment would dictate. As a result, levels of underemployment and poverty are high. Interestingly, the more a country is dominated by the agrarian and/or informal sectors and non-tradable activities, the larger are the proportions of its poverty. This implies that integration of labour in these countries into the international division of labour could improve standards of living. The fact that well over a third of the population in Cambodia, Laos and Vietnam subsist below the poverty line, is evidence that insulation is not beneficial.

There is a general realisation that while economic integration and trade can be mutually advantageous, it is more important to address the internal constraints to development in all the four countries. These are political, economic, and technological, as well as social. These studies all bring home the grim reality that if labour issues are left unaddressed, the resulting problems can pose threats to the stability of the region.

We sincerely hope that, like the findings of the first DAN study, the outcome of this phase will also be of interest and of use to policy makers and academics alike.

Eva Mysliwiec
Director,
Cambodia Development Resource Institute

March, 2001
CDRI Phnom Penh

Abbreviations

Acronyms

ADB	Asian Development Bank
AFTA	Asian Free Trade Area
ASEAN	Association of Southeast Asian Nations
BOI	Board of Investment
BOP	Balance of Payments
CALOW	Centre for Laid-off Workers
CARERE	Cambodia Area Rehabilitation and Regeneration
CDRI	Cambodia Development Resource Institute
CGE	Computable General Equilibrium
CMAC	Cambodian Mines Action Centre
CPI	Consumer Price Index
DAN	Development Analysis Network
FDI	Foreign Direct Investment
FY	Financial Year
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft Fuer Technische Zusammenarbeit
ILO	International Labour Organisation
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
Kip	National Currency of the Lao PDR
Lao PDR	Lao People's Democratic Republic
LFS	Labour Force Survey
MOE	Ministry of Education
MOEYS	Ministry of Education, Youth and Sports
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs

MOI	Ministry of Interior
MOLSW	Ministry of Labour and Social Welfare
NEI	Netherlands Economic Institute
NEM	New Economic Mechanisms
NERI	National Economic Research Institute
NESDB	National Economic and Social Development Board
NGO	Non-governmental organisation
NICs	Newly industrialised countries
NSC	National Security Council
NSC	National Statistical Centre
NSO	National Statistics Office
ODA	Official Development Assistance
OECF	Overseas Economic Cooperation Fund of Japan
PMO	Prime Minister’s Office
PPP	Purchasing Power Parity
PRSP	Poverty Reduction Strategy Paper
RGC	Royal Government of Cambodia
RUDF	Regional Urban Development Fund
SEATEs	Southeast Asian Transitional Economies
SESC	Socio-economic Survey of Cambodia
SOE	State-owned Enterprises
SPC	State Planning Committee
TDRI	Thailand Development Research Institute
Baht	National Currency of Thailand
ULFS	Urban Labor Force Survey
UNDP	United Nation Development Programme
UNESCO	Unites Nations Educational, Scientific and Cultural Organisation
UNICEF	United Nations Children's Fund
US$	US Dollar
VAT	Value-added tax
WB	World Bank

Introduction

Labour Markets in Transitional Economies in Southeast Asia and Thailand: A Study in Four Countries*

Sarthi Acharya

Most countries in Southeast Asia faced economic contraction as an aftermath of the Asian financial crisis. A large number of workers were rendered unemployed. The situation was perhaps the worst felt in Thailand, but the transition economies were affected as well. Of course each of the latter had more than the regional crisis to blame for its fate. Cambodia, for instance, underwent some intense political uncertainty, while Laos was affected by imprudent fiscal judgements. Vietnam stumbled in managing its transition process. However, unlike at any time, anywhere in the past, repair and amends began immediately. In less than a year, most countries appeared to have come out of the worst and have been gradually making their way to recovery.[1]

The more difficult problem faced by these economies is the structural rigidity in their labour markets that has not permitted adjustment processes to be rapid and smooth. For one, the agrarian sector is rather large. While it acts like a giant sponge to absorb labour released from non-agricultural sectors during times of economic downturn, the large numbers of underemployed and poor people in the agrarian sector is a constant cause of concern. At the economic level, surplus labour in the

* This paper is based on the four Development Analysis Network (DAN) country papers and discussions of these at a conference in Laos in December 2000. Sarthi Acharya is CDRI's Research Director.

1 There is extensive literature on this subject. See DAN (1999), Wickramasekara

agricultural sector retards the growth of productivity in agriculture and allied activities and, hence, wages and earnings. This in turn impacts savings and investment. At the human level, there are problems of low standards of living, high population growth and generally low social development. Developing countries in this region are thus faced with the challenge of growth, adjustment and poverty alleviation, and in all of these, labour markets play a central role.[2]

In 2000, the Development Analysis Network (DAN), a network of seven research institutions in the region, began studying the structure and dynamics of the labour markets in the Southeast Asian Transition Economies (SEATE) and Thailand. This research was undertaken with a view to, (a) examine links between the labour market, economic growth and poverty reduction, (b) judge the impact of both the internal and external crises on the labour market, and (c) review existing policy that affects the labour market. In order to enable the study to fulfil these objectives, the following core questions have been addressed:

(1) What is the structure of the employment problem in each of the countries?

(2) What are the temporal changes experienced over time in recent years?

(3) How important is the role of migration in labour market adjustment?

(4) What are the underlying causes of the crisis, and consequences on the labour markets, particularly the wage employed and the poor?

The four countries under study here are quite different in their structural characteristics and levels of development; hence the purpose was not only to look at similarities, but also at critical differences, and the implications of these for public policy. Each of the papers has relied on extensive use of census and large, economy-wide survey data for carrying out the analysis, in addition to conducting small sample studies. However, because of the dissimilarities between countries, the approach taken in each paper is unique. This introductory chapter highlights some of the central issues discussed in the papers, and compares their approaches and findings. In the process, it delves into the challenges that need to be faced. The chapter concludes with a review of public policies in place and their efficacy.

1.1. Similarities and Contrasts Between the Countries

Thailand reports a *per capita* Gross National Product (GNP) of about US$2000 compared to the others where GNP is less than US$400. In the late 1990s, the lowest *per capita* GNP was recorded in Cambodia at US$280. The GNP of Vietnam

2 See Horton *et al* (1994) for a detailed examination of the critical role of labour

was US$330 and that of Laos was US$360. The Human Development Index (HDI) follows a somewhat different order. After Thailand, the HDI ranks Vietnam first, followed by Cambodia, and then Laos. Since the HDI incorporates education and life expectancy, it is evident that there is divergence between economic and social progress in the countries in question. Adult literacy is high in Thailand and Vietnam – exceeding 90 percent – but in Cambodia and Laos it is less than 65-70 percent.[3] It is not surprising that Laos ranks lowest in the HDI rating since its literacy achievements are the lowest. Total fertility rates are also lower in Thailand and Vietnam, placed at near to two, while in Cambodia and Laos the fertility rate is above four. These statistics suggest that social progress, achieved owing to high incomes in Thailand, has been possible at a relative low-income level in Vietnam. Cambodia and Laos, however, have not witnessed the same success.

In terms of natural and human endowments, two indices bring out the contrasts. For the active population, Vietnam has the least amount of cultivable land (511/sq km), followed by Thailand, (170/sq km), Laos (151/sq km) and Cambodia (105/sq km). Interestingly, the former two have a much higher productivity level and are food-exporting countries, compared to the latter two, which despite more available land, are not in the same position. Considering that the whole region is agro-climatically nearly homogenous,[4] better land-use practices and irrigation have enabled Thailand and Vietnam to forge ahead of Cambodia and Laos.[5] Part of the reason why agricultural modernisation has been more successful in some countries, compared to others, is also the prevalence of more education. The number of years of schooling per square kilometre, an indicator of educational spread, was found to be by far the greatest in Vietnam (2685), followed by Thailand (635), then Laos (512) and finally Cambodia (422).[6]

Cambodia differs from the other four countries because it has recently emerged from a traumatic war lasting nearly three decades. Its human development index is rather low because none of its social institutions were effective due to the civil war, and they have only just begun to function. Its struggle to fight poverty and backwardness requires an all-out economic package, a peace and governance agenda, as well as a social development plan. Laos, a multi-ethnic low-income country, has

3 The census figures are questioned by more in-depth surveys, which find that, at least in Cambodia, the actual literacy does not exceed 40 percent. See, RGC (2000).

4 Indeed, within the region there are notable differences, for example, lands in the Mekong delta are more fertile than, say the uplands. Such differences, however, do not negate the generalisation made in the text.

5 A detailed discussion on land and labour use in East and Southeast Asia can be seen in Ishikawa (1981).

6 These statistics, though, are not independent of the population density; hence, an exact correspondence between education and productivity should not be expected.

stayed out of the international division of labour for far too long, due to the combination of both an agrarian economy and centrally-planned forms of governance and economics. Its problems are similar to those faced by some other Asian countries three to four decades ago, and it may have to pursue the classical development path of setting up labour-intensive industries and adopting an open-economy policy. Thailand has grown at a brisk pace in the last two decades and is now a middle-income country. But having been affected by the Asian financial crisis more than any other country, it is slowly limping back to normalcy. Its experiences provide lessons to others. Lastly, Vietnam, a low-income country that has also faced a prolonged war (from the 1950s to the 1970s), has shown considerable economic dynamism in recent years, despite its traumatic history. Unlike Cambodia, Vietnam's social and civil institutions remained largely intact during the war, and this has contributed to its high levels of literacy and education. Vietnam now needs to create responsive business and financial institutions that are in tune with current realities.

1.2. Labour Participation Rates

Labour participation rates (LPR) in Southeast Asia are higher than most other Asian countries.[7] The insignificant or non-existent gender gap in LPR here, in contrast to elsewhere in the world, is characteristic of this region. Table 1.1 provides some, though not fully-comparable, figures on LPR for the four countries. Despite these definitional differences, they confirm that participation rates are high. Some inter-country variations in LPR can be explained by the higher (or lower) educational participation of people in the group aged 10-19 years. For example, Vietnam, and to

Table 1.1. Labour Participation Rates in the SEATE Countries and Thailand

Countries	Rural-male	Rural-female	Urban-male	Urban-female	All areas-male	All areas-female
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Cambodia						
(age 10+)	69.7	70.6	62.6	54.5	69.7	70.6
(age 15+)					82.0	76.0
Laos						
(age 10+)	71.5	75.1	60.4	53.3	69.5	71.2
(age 15+)			73.1	61.8		
Thailand						
(age: all)	-	-	-	-	59.4	48.0
(age 15+)					83.0	67.0
Vietnam						
(age: 15+)	-	-	-	-	83.2	83.9
(age: all)					50.0	45.5

Note: Data for Laos for the age group 15+ are from the 1995 Census. Source: DAN Country Papers 2000

7 Historical and agro-ecological discussions on this can be seen in Boserup (1970).

an extent Thailand, have higher numbers attending educational institutions. As a result, there are relatively fewer workers in this age group, and *vice versa*. The other important determinant of labour participation is the age composition of the work force. In countries where total fertility rates have visibly fallen (Thailand and Vietnam), labour participation is generally high in the higher age groups. In countries where fertility rates are still high (Laos), labour participation is high in the lower age groups, but visibly reduced in the higher ones.[8] The third important determinant of labour participation is the division of the work force between rural and urban areas. The LPR is high in countries where peasant agriculture is less pervasive (Thailand), and low where the majority are engaged in peasant agriculture.

Next, in three of the four countries there are actually more female than male workers in the labour force.[9] However in Thailand, and in urban areas of Cambodia and Laos, this is not the case. This demonstrates that peasant agriculture, which dominates labour activity in all three transitional economies, engages women workers in large numbers. Because human capital plays a crucial role in most urban jobs, and women are uniformly less-endowed with it due to a lack of educational and training opportunities available to them, their participation in the labour force in urban areas is accordingly less. Next, in some settings, evidence suggests that the minimum supply price of labour rises with education. It is possible that not all jobs in urban areas come up to the supply price of female workers, and that some women leave the income-earning part of the labour force.

1.3. Sectoral Distribution of the Work Force

A sectoral distribution and occupational structure of the labour force in the Asian context can throw light on a number of issues related to the extent of the development of the labour market.[10] Table 1.2 contains data on the sectoral distribution of the labour force. These follow the International Labour Organisation's broad categorisation of sectors as primary, secondary and tertiary. As mentioned earlier, most of Asia still has a large section of its labour force working in the primary sectors, essentially in peasant agriculture. This has gradually been reducing over time, with workers moving to urban/non-agricultural occupations for work. There are more men moving out of the primary sectors than women. As a result, a higher proportion (and number) of women are left behind in agriculture. In time this may lead to a 'feminisation' of agriculture.

8 Age-specific participation rates, given in the country papers, stand witness to this.

9 In the case of Vietnam there are more females in the labour force only when data for age groups 15 years and above are taken.

10 Distributions of the labour force by occupational and status categories strengthen the arguments developed here. For reasons of brevity, data on sectoral distribution

Table 1.2. A Broad Sectoral Distribution of Workers (percent)

Sector	Sex	Cambodia	Laos	Thailand	Vietnam
(1)	(2)	(3)	(4)	(5)	(6)
		Year: 1999	Year: 1992	Year: 1999	Year: 1997
Primary	Male	73.6	-	-	-
	Female	78.1	-	-	-
	Person	76.0	87.0	48.5	72.3
Secondary	Male	6.8	-	-	-
	Female	7.0	-	-	-
	Person	6.9	3.6	18.4	14.9
Tertiary	Male	19.6	-	-	-
	Female	14.9	-	-	-
	Person	17.1	9.4	33.1	12.8

Source: DAN Country Papers 2000

Laos has the largest number and proportion of its population working in agriculture, followed in respective order by Cambodia, Vietnam and then Thailand. The level of development in these nations is roughly the same, but in reverse order. These data also reflect the fact that both Thailand and Vietnam have a substantial manufacturing sector. As far as the service sector is concerned, as would be expected, Thailand ranks first. Cambodia ranks second, with Vietnam third. Perhaps the reason for this ranking can be found in the model of development pursued in the three countries. Vietnam has followed a central planning model, which for a long time attached relatively less importance to the services sector.[11] In contrast, Cambodia has followed a market-driven model, which, subject to supply constraints, attaches greater importance to activities that have a larger market. Since Cambodia as yet has many constraints in the growth of its secondary sector, the service sector has forged ahead.

The informal sector, like peasant agriculture, also acts as a giant sponge that absorbs (and releases) labour depending on demand. While there is no objective method to define the informal sector, clearly the number of self-employed and unpaid family workers in the petty production/retail sector can be used as a proxy to represent it. All the economies in the region have a very large informal sector. The proportion of self-employed and unpaid family workers in Thailand is 68 percent; elsewhere it is larger. To this extent, labour markets in all three countries are in the early evolutionary stage.

1.4. Unemployment and Underemployment

In most agrarian economies, unemployment is concealed and takes the form of underemployment. While approaches have been developed to measure this, their

11 In fact many of the service sector activities are not even considered productive in centrally-planned economies. The 'material product system' of accounting that

adoption in large surveys has yet to be found practical.[12] Some data on unemployment, which have been extracted from the country studies, are shown in Table 1.3. As stated earlier, the overall unemployment rates do not appear to be high in any of the countries. Thailand's unemployment rate is over 5 percent, while Cambodia and Laos show rather low aggregate numbers of unemployed. Urban unemployment rates are higher everywhere. While separate data for urban areas in Thailand are not available, it is believed that the rate is higher there too. In urban Laos, unemployment figures vary widely between the 1995 census (Table 1.3) and the 1994 Urban Labour Survey (see country paper). The latter shows much higher figures (in the double digits). This divergence shows that the unemployment status of workers is highly sensitive to the definitions used, a typical characteristic of less-evolved labour markets.[13]

The papers suggest four distinct aspects to unemployment. First, age-specific data in all the countries reveal that young people face more unemployment than those who are older. The highest unemployment is seen in the age group 20-24 years, followed by those aged 15-19. In Thailand, the age group in their late-twenties also figures prominently among the unemployed. Perhaps this is a result of the financial crisis in that country. High unemployment rates for those in younger age-groups are generally the case in all developing countries. It is easy to see the reason for this. Entry into the market is difficult for young people, especially in the sector of their choice. Often out of lack of choice, they join the agrarian or informal sectors where young entrants can still be accommodated. Thereafter they remain there. Being out of a job for a long time is simply unacceptable, both economically and socially. Second, it can be observed that there is an inexplicable difference in

Table 1.3. Unemployment as a Proportion of the Total Labour Force

Country (1)	Sex (2)	Rural (3)	Urban (4)	All areas (5)
Cambodia	Male	0.42	3.04	0.80
1999	Female	0.34	3.60	0.66
	Person	0.38	3.30	0.70
Laos	Male	1.1	4.5	1.70
1995	Female	1.1	4.6	1.70
	Person	1.1	4.5	1.70
Thailand	Male	-	-	5.03
1999	Female	-	-	5.50
	Person	-	-	5.10
Vietnam	Male	0.96	5.21	3.49
1999	Female	0.69	3.27	1.85
	Person	-	-	-

Source*:* DAN Country Papers 2000

12 See Sen (1976), Islam *et al* (1982) and Acharya (1983) on application of some alternative criteria of measuring underemployment.

13 See Horton (1995) for a discussion on this issue. A theoretical treatment can be

unemployment rates between men and women.[14] Cambodia and Vietnam exhibit the pattern of more men than women being unemployed. This is acceptable since women have the option of self-provisioning when faced with an unfriendly labour market. Figures for Thailand and Laos, however, show that more women are unemployed than men This pattern needs further investigation. Third, some interesting variations can be observed with regard to the link between education and unemployment. In Cambodia, there are probably not too many jobs for the highly educated, and hence there is higher unemployment among them. However, because they usually belong to the more affluent sections of society, they can afford to wait for the job of their choice. Laos follows a similar pattern. In Vietnam, school dropouts face higher unemployment because there are few opportunities for them. There is little evidence of a positive correlation between education and unemployment. In Thailand, the less-educated face more unemployment. This is due partly to the recent economic crisis that severely affected construction. Traditionally this sector has provided employment for those with little education. Finally, the Thailand paper demonstrates seasonality in unemployment. This paper shows that despite the high market penetration in that country, the unemployment rate can vary by up to 2 percent between agricultural seasons.

The country studies in this volume have used a few proxy variables to measure underemployment. Field surveys in Cambodia do not attempt to measure underemployment directly; instead, the incidence of workers holding multiple jobs is an indication of it. Data from the 1999 Socio-economic Survey show that about 38 percent of male workers and 32 percent of female workers hold two or more jobs. While workers do take up more than one job in many developing countries, (in particular agricultural workers in slack seasons), when this occurs in all sectors, it indicates widespread underemployment. Laos defines the visibly underemployed as those who have worked for less than 40 hours a week. In urban areas, these constitute 3.2 percent of the work force. According to the 1994 Urban Labour Survey, this applied to 3.8 percent of male workers, and 2.6 percent of female workers. While there is a clear admission that the invisible underemployed also exist, and likely in large numbers, their enumeration remains a problem. The Thailand paper measures visible underemployment through counting persons working for less than 20 hours a week. In 1999, between 1.6 percent and 2.9 percent of the employed fell into this category, with little evidence of seasonality. Generally speaking, the young, the old, the less educated, and those engaged in agricultural activities, face more underemployment. Vietnam defines underemployment as the ratio of unused working time to total working time. In 1999, this was a little over one-fourth of the total work time. Data from Laos and Thailand, which use comparable definitions, permit one to con-

14 Examples of entry and increase of workers in the labour market can be seen in Acharya and Jose (1991).

clude that visible underemployment in both these countries is rather low. There is, nevertheless, underemployment in all the countries.

1.5. Migration

People migrate as a part of their survival strategy. Both in- and out-migration are parts of the labour-market adjustment process. In developing countries, as modern sectors grow, they attract rural migrants from agriculture. In recent decades, impoverished rural workers have often sought jobs anywhere they can find them.[15]

In Cambodia, as elsewhere, workers in search of jobs travel from rural to rural areas, from rural to urban areas and from urban to urban areas. The most dominant form of migration is rural out-migration, essentially to other rural areas. Second in importance is migration from rural to urban areas. Since non-agricultural activities have been slow to grow, migration is essentially supply led; meaning that workers move out to look for jobs rather than jobs attracting them. Laos shows much smaller numbers of internal migration – only a few women moving to work in garment factories seem to have been recorded, though this clearly is an understatement. Thailand has witnessed migration from rural to urban areas – the classical flow – as well as from urban to rural areas. In this regard, Thailand stands apart in the sense that there are still remunerative jobs in rural areas. It is important to note, however, that in Thailand rural areas are so defined that they may nurture activities far beyond agriculture. There are industries, as well as services, in some rural locales. In Vietnam, migration is defined differently. The surveys adjudge whether a person was born at a place different from his/her present place of residence, in order to label him/her as a migrant. Survey data, and most other impressions in the country, suggest that the rural poor move towards urban areas and better-endowed rural areas to eke out a living. In fact, there has been a long-term movement from the northern part of the country (poorly endowed) towards the south (better endowed), and from rural to urban areas. However, data from a recent survey suggest that the most important reason is family related. This aspect needs further analysis.[16]

Each of the countries has also experienced international out-migration of their people, as well as in-migration of outsiders. In Cambodia, cross-border migration.[17]

15 In a majority of cases, the impoverishment is worsened due to population pressure. An analytical description on supply-led migration can be seen in Harris and Tudaro (1969).

16 Family-related reasons include marriage migration. It is often seen that unless data are classified differently, married women's migration tends to dominate aggregate migration statistics. This finding is quoted from a living standards survey, the details of which require further examination.

particularly of Cambodians to Thailand and of Vietnamese to Cambodia, has attracted attention. While the former move westwards for unskilled work, the latter move (also) westwards to fill gaps in the relatively-skilled job segments. The situation in Laos is somewhat similar. A number of Lao workers have crossed the border to Thailand to do low-skilled jobs, though many are now being deported due to reduced job opportunities in Thailand. Laos, meanwhile, gets some skilled workers from its neighbouring countries. It is believed that not all migrants are registered with authorities, meaning that they are working illegally. Out-migration from Thailand has mainly been to Taiwan, the Middle East, ASEAN and some Western countries. All migrants going overseas appear to be skilled – a requirement in order to compete and to get a legal contract. As mentioned earlier, Thailand receives unskilled/semi-skilled, legal as well as illegal workers, from Cambodia and Laos, in addition to those from Myanmar. The largest number of migrants holding permits to work legally in Thailand, are those from Myanmar. All such migrants now face a setback due to the economic crisis in Thailand. Not much is officially known about foreign workers in Vietnam, but it is believed that Vietnamese workers have been seeking jobs in as many as 30 countries around the world, including neighbouring countries. The descriptions in this section suggest that the Harris-Tudaro type of reasoning (see Footnote 15) can explain fairly accurately the bulk of people's geographic movement, within and outside their countries.

1.6. Child Labour

Most countries in the region are signatories to the two main ILO conventions on Child Labour. While one proposes its abolition in a phased manner, the other urges an immediate ban on the worst forms of child labour. Not many data are immediately available on the nature of deployment of children at work, but the extent can be gauged from figures on age-specific LPR provided in the country reports. There are problems with comparability though, since some countries consider working persons aged less than 15 years within child labour, while others consider 17 years to be the cut-off limit. Also, data are not always given for comparable age intervals. Nevertheless, since the problem of child labour persists in the whole region, it warrants attention.

Cambodia has about 10 percent of its child population in the age group 10-13 years, in the labour force. In the age group 14-17 years, this number is 36 percent for male and 50 percent for female children. Most of them work in the primary sectors. In Laos about one-fourth of its children in the age group 10-14 years are engaged in labour. About 29 percent are girls and 22 percent are boys. In the age group 15-19 years in Laos, those of aged 15, 16 or even 17 years may be considered underage if working in some environs. The proportion working is about 61 percent. Of

these, 51 percent are male and 72 percent are female. In Thailand, the figures for employment in the group aged 13-14 years are about 9 percent for males and 8 percent for females, and for the age group 15-19 years, they are 33 percent and 26 percent, respectively. These data show that Laos and Cambodia have very large numbers engaged in child labour, particularly in the older age groups, while the figures for Thailand are visibly lower.[18] In predominantly peasant societies – Cambodia and Laos in this case[19] – the incidence of children, particularly females, working early in life is high. This reduces with growth of the market economy. There is a large volume of literature that eulogises peasant economies and finds vices with the market. Several statistics suggest the contrary; the incidence of child labour is one.

1.7. Labour Markets, Poverty and Growth

People's living standards are closely linked to economic growth and evolution of labour markets. For example, if growth is rapid and labour using, there is a movement of workers away from unpaid family jobs and subsistence-oriented activities, to wage employment. This in itself is progressive since wages in the market are better than subsistence earnings. When this is accompanied by formation of human capital, productivity and earnings also rise. A more flexible labour market facilitates relocation of workers away from low to high productivity areas and from low to high demand activities. All of this ultimately leads to better conditions for the society as a whole.[20]

Basing its analysis on one-point data, the Cambodian study shows that poorer households have more dependants, they have less literacy/education and they work for fewer hours per week. In these households wage earnings are lower and child labour higher. Next, there is far more poverty concentrated in the agricultural sector, where people are engaged in self-employment and unpaid family work.

Data also show that workers in those sectors that have experienced rapid growth in waged employment, exhibit less poverty. Labour inflexibility, slow evolution of the labour market and slow growth in the economy are reported to be partly responsible for poverty in Cambodia. The implication in the temporal context is that if people have higher skills, and if economic growth provides them with full-time jobs outside subsistence activities, their incomes will rise, which in turn will help reduce poverty.

18 It is important to note that in Thailand, the percentage of working children in the age group 13-14 years reduced from over 35 percent to less than 10 percent, in a decade when the economy showed extraordinary growth.

19 There are no data for Vietnam available on this aspect in the country paper.

20 A full debate on this can be seen in the World Development Reports of the World

Laotian industry grew reasonably in the 1990s, but because of its small base, the impact on the labour structure has been limited. Want of adequate human capital has also thwarted greater emergence of the non-farm rural sector. The silver lining though is that the elasticity of labour use, with respect to growth in non-agricultural activities, is higher than that in agriculture. Positive, though moderate, growth in *per capita* income (and consumption) during this period has led to some reduction in poverty.

Thailand experienced rapid growth through the 1980s to the mid-1990s that resulted in a dramatic reduction in poverty. For every 1 percent of growth in national income, poverty fell by one-half of one percent. The country also recorded a positive association between GNP and real wages. When the GNP grew rapidly, wages also visibly rose. In recent years, when growth suffered a setback, poverty proportions also rose. Next, there is a strong negative association found between education and poverty and between trade liberalisation and employment, and hence poverty. Third, while maximum numbers of the poor are still associated with agricultural activities, this imbalance is being corrected gradually.

An increase in GNP has been inversely associated with employment in agricultural sectors, implying that growth in GNP creates jobs outside agriculture. This is probably how the correction has been effected. There is admission though, that poverty reduction has been achieved not by growth and markets alone, but by active government policy as well. Vietnam presents a very similar result. During the 1990s, poverty has reduced in response to rapid growth in the national income. Labour markets are less perfect in Vietnam when compared to Thailand. As a result, rural poverty has remained high and is closely associated with access of families to arable land. Here too the research affirms that growth alone is not responsible for improvements in living standards – affirmative government policies have made their own contribution.

All these statistics and results are evidence that rapid growth, shift of labour out of subsistence to market-led activities and economic reforms, in addition to affirmative policies like creation of human capital, and social and physical infrastructure, are necessary for productive labour use, wage increase and poverty reduction.

1.8. Crisis and Impact

The Asian crisis that hit the region in the late 1990s, has had varied impacts on different economies. The worst of the storm, of course, was in Thailand, and the other badly-affected countries were Indonesia and Malaysia. In the transition economies, the financial crisis *per se* was felt only to a limited extent because their integration into the regional and larger markets was less. However, each of the three countries under study faced domestic crises of a fairly serious nature.

There was an internal political conflict in Cambodia in mid-1997 that assumed violent proportions. Business confidence fell, tourist arrivals plummeted and foreign aid stood suspended or withdrawn. As a consequence, inflation rose and the government responded by adopting austerity measures. The GDP growth rate, which averaged 7 percent in previous years, was down to one percent. In the following two years, after elections and some stability, just as the economy began to climb back towards normalcy, floods hit large parts of the country in the monsoon of 2000. The impact of all these, though, is not seen in the form of obviously-rising unemployment. Cambodia is still a predominantly peasant-oriented economy. The inactivity rate, however, rose among both men and women, implying that many withdrew from labour markets in order to take up self-provisioning. Real wages, as seen from data pertaining to Phnom Penh, also declined in 1997-1998. This was particularly so among vulnerable workers, who, in some cases experienced a 30-40 percent decline in real earnings over this period. Their wages, though, did not decline further in the year 2000.

Laos, like Cambodia, felt the external crisis only to the extent that its exports, migrant remittances and foreign investments were affected. Fiscal imprudence was the main reason for its internal problems.[21] Between 1997 and 1999, inflation rose over 250 percent and the currency was depreciated twice during 1998-99. This resulted in government sector employees losing real income, although those working in the private sector managed to salvage their incomes. In general, urban residents, who are more dependent on the exchange economy and imported goods, were more severely affected than those in rural areas. During this period, medicines, clothes, education, etc. became more expensive. The overall poverty from 1992/93 to 1997/98, though, showed a decline, partly because the crisis hardly affected the rural economy, but also because the main crisis in Laos occurred during 1998/99. As a result, these figures may not capture the reality.

Thailand still has a large peasant and informal economy that absorbs a lot of shocks. Agricultural employment rose slightly between a little before, and a little after the crisis, probably in response to retrenched workers seeking refuge in agriculture. In some sectors such as construction, manufacturing, mining and transport, large numbers of jobs were lost. The crisis hit the low-skilled jobs the hardest.

It is believed that the educated are more flexible and have a higher capacity to adjust. The impact appears to have hit female workers more than male, *a proiri* though, there appears to be no explanation for this other than the one based on human capital. The aggregate (monthly) wages of employed workers do not appear to have fallen greatly. At a dis-aggregated level, the impact is more visible. In the mining industry, for instance, there was a sharp decline in wages. Also, rural wages fell

21 A more detailed treatment of the crisis and its impact in each of these countries

more than urban; the reason probably lies in more workers seeking jobs in the agricultural sector.

Vietnam's domestic problems originate from its inefficient state-owned enterprises and cumbersome domestic rules and regulations that impede speedy development of the private sector. The combination of the impact of these problems and the financial crisis in the region resulted in a fall in foreign and domestic investments, decline in trade and, hence, a fall in the rate of growth of GDP. These ultimately led to a deterioration in social indicators. Employment growth declined in both state and private sectors. Urban unemployment rose from 6 percent in 1997 to 7.4 percent in 1999, and underemployment increased from 25.5 percent in 1997 to 28.2 percent in 1998. Women and younger persons faced the brunt more than others. Before 1997, the annual wage increase was at least 10 percent for most categories of work; this fell to negligible, or even became negative in 1998-99. But like Thailand, some sectors were hit more severely than others; in fact, a few sectors and activities came out unscathed. The private sector exhibited a higher degree of flexibility and, hence, adjusted better compared to the public sector.

1.9. Policy Responses

The four countries in this study are at different socio-economic levels. They have historically evolved differently and they follow quite different models and paths of development. It is thus not surprising that each faces a separate set of challenges and has opted for policy interventions unique to its own environment. Expectedly, these policies are dissimilar. The one similarity in policies, though, is that their development agenda shadows the one on stabilisation.

Since Cambodia's civil administration was severely affected during the civil war, re-establishing it is a priority in order to affect development. The government has recently initiated a comprehensive package of reforms. Land reform, which envelops land administration, land management and agricultural modernisation, is on the top of the agenda. The second item in the package is the fiscal system, expressly with the objective of broadening the tax base. The third item is governance. In this area, the principal aim is to rationalise the size of the government, make the employee remuneration structure more realistic, ensure transparency in business and public life, put in place some critical regulations and enforce the rule of law. There are a number of special measures also adopted to instil confidence in the business community in Cambodia. It is believed that employment will be created and poverty alleviated if the reforms succeed. Despite this assumption, the government has begun to implement direct anti-poverty programmes as well, in order to supplement sectoral policies. This process has been set in motion, and will take time to complete.

In Laos, the government had initially responded by making efforts to stabilise the currency and control inflation. This, to an extent, has been achieved. In the context of employment generation, effort is being made to promote labour-intensive industries by providing appropriate investment incentives. The government is also trying to promote vocational training. To this end, a few training centres have been set up with Japanese and German assistance. Austerity in government and public life is another measure adopted. For promoting labour interests, trade unions, women's groups and the government have taken up specific measures to adhere as closely as possible to ILO conventions.

The Thai government's response immediately after the crisis was to correct the exchange rate and take up a series of monetary and fiscal measures to stabilise the currency, strengthen industrial competition, beef up the capital market and mitigate social problems. Additionally, a series of poverty alleviation and employment generation measures were adopted. It should be kept in mind that many Thais made their own adjustments. Faced with unemployment when the businesses they worked for were shut down, many Thais went back to rural areas. In this regard, rural industry promotion and skill development to promote self-employment constitute a part of the regeneration programme. Second, efforts were made to repatriate illegal workers so that more jobs could be created for Thai nationals. At the same time, the export of skilled labour continued to be strongly encouraged. Last, a balanced resource-use plan in agriculture, put forward by the King of Thailand, formed an important component of the package. The Thai recovery package, thus, was a blend of market-oriented, as well as promotion-oriented efforts, and was very close to the local realities faced in that country.

Vietnam's approach to overcome its crisis, has been to continue the liberalisation strategies it has been pursuing since the adoption of *doi moi* in the 1980s. The most significant change brought about with regard to labour in the last decade has been to recognise labour as a factor of production within a market framework. Vietnam has set up a national programme of employment generation to serve as a safety net for those laid off because of industrial restructuring. The programme's different components include subsidised credit (to promote self-employment), severance payments, and training for acquiring new skills. The investment law also rewards enterprises that provide more jobs. The additional activities being promoted to create employment (and other benefits), are promotion of foreign direct investments, encouragement of rural non-farm businesses, promotion of labour-intensive infrastructure programmes, and extension of rural credit. On the supply side, an active population control policy, in addition to education and skill development programmes, form the basis of an extended employment policy.

The policies being pursued in these countries permit one to draw at least four inferences. The first is related to growth. Each of the studies notes that the slowing

down in growth rates in the recent past, has led to a rise in unemployment and poverty. In view of the fact that the population and the labour force are still growing in all countries, maintaining rapid growth is vital in the years to come. Second, labour markets in each of the countries are at an evolutionary stage; there is, therefore, not much flexibility. A higher flexibility in labour markets helps ease adjustment and, hence, causes the least loss of welfare. This status is yet to be attained and for achieving it, agrarian reforms are paramount. Third, the promotional role of government cannot be undermined, even in a market-driven arrangement. In fact, the state has a major responsibility to promote human capital formation and infrastructure development, in addition to providing an enabling environment and putting in place an effective regulatory mechanism for business and labour. In addition, it is the state's responsibility to implement social protection and social assistance schemes as well as anti-poverty programmes. Last, different as these countries are from each other, they can still learn from each other on the broad contours. More specific policies will have to be country-specific, and not blind to the country's historical and cultural settings.

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Chapter Two

A Study of the Cambodian Labour Market: Reference to Poverty Reduction, Growth and Adjustment to Crisis

Martin Godfrey, So Sovannarith, Tep Saravy, Pon Dorina, Claude Katz, Sarthi Acharya, Sisowath D. Chanto and Hing Thoraxy*

2.1. Introduction

The Cambodian economy has had a chequered history of having a new economic system imposed virtually every decade since the 1960s. There was a spate of nationalisation of industries and banks in the 1960s, a free market system reintroduced in the early 1970s, two very different versions of central planning imposed from 1975 to 1989, and a free market system again put in place in the 1990s. From 1975 to 1979, all economic, social and political institutions came under serious strain, and many are yet not in proper shape today. The consequent economic devastation has posed challenges for addressing poverty, providing jobs to the growing population, and promoting social development. Central to the tackling of these issues, is an understanding of the labour market.

This report explores the nature and trajectory of Cambodia's labour market, analysing both its structure and recent trends. On this basis, it examines the links between the labour market, poverty reduction and growth, and the impact which

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recent political and economic crises have had on the conditions of labour.

Cambodia faces the dual and difficult objectives of attempting reconstruction of a society and economy torn by conflict and war, along with transition from a centrally-planned to a free-market economic system. Since 1998, when a coalition government was formed after a general election and mass defection of Khmer Rouge members to the government, the country has enjoyed some peace and stability for the first time in over 20 years. Progress with economic reform, though it has accelerated somewhat in the last two years, is still slow. Nevertheless, the economy grew fast in the first six years of the 1990s (at an annual average rate of around 7 percent) and, while it was interrupted by the internal and external crises of 1997/98, growth resumed in the final year of the century.

Growth has been accompanied by an apparent reduction in poverty. The proportion of Cambodians living in poverty (measured by the headcount index) was estimated to have fallen from 39 to 36 percent between 1993/94 and 1997, according to the socio-economic surveys pertaining to those years. The poverty profile based on the 1999 survey has not yet been released, though unofficial records show that there was no real change between 1997 and 1999, a period that experienced virtual economic stagnation due to the July 1997 fighting.

This paper pays particular attention to the actual and potential links between growth of employment, particularly wage employment, and transformation of the economy as a whole. No attempt had been made to construct a comprehensive poverty profile, but the association between the labour market and poverty is explored. The impact of crises was measured by analysis of changes in such indicators as wage employment, real wages, net earnings of self-employed and own-account workers, and the extent of labour migration. An attempt is made to integrate gender into the analysis of the labour market, rather than to treat it as a separate subject. The paper is written in nine sections. Section 2 discusses the factor endowment of the country, hence establishing the premise. Section 3 analyses the labour market structure, followed by Section 4 which looks at the nature of the extant migration. Sections 5, 6, 7 and 8 examine respectively recent trends in the labour market and links between the labour market and poverty reduction, between the labour market and economic growth, and between the labour market and economic crisis. Finally, Section 9 discusses current policy, with specific reference to labour and poverty alleviation. The paper ends with a section on conclusions and recommendations.

2.2. Cambodia's Factor Endowment and Comparative Advantage

Compared with many of its neighbours, Cambodia is not a classic labour-surplus

1 Measured by adult population per square kilometre.

Table 2.1. Labour/Land and Labour/Cultivable-land Ratios in Cambodia and Selected ASEAN Countries in the 1990s

	Land area ('000 sq km)	Cultivable land area ('000 sq km)	Active population (i.e. aged 15 – 64) (million)	Active population per sq km total land	Active population per sq km cultivable land
1	2	3	4	5	6
Cambodia	177	54	6	32	105
Laos	231	17	3	11	151
Vietnam	325	73	40	124	511
Indonesia	1812	457	98	54	233
Philippines	298	105	30	102	270
Thailand	511	221	36	71	170
Malaysia	329	79	9	27	114

Source: FAOSTAT database. Cultivable land includes cropland and permanent pasture

economy. Table 2.1 shows that its labour/land ratio[1] is one of the lowest in the ASEAN countries, with only Lao PDR and Malaysia showing a lower density. If cultivable land alone is taken into account, the contrast between Cambodia and other ASEAN members becomes even greater.

In terms of labour/cultivable-land ratios, there are in effect three groups of countries in ASEAN: those with very high density (Vietnam, the Philippines and Indonesia); those with relatively low density (Malaysia and Cambodia, the lowest of all on this measure), and those in-between (Lao PDR and Thailand).

The figures in the table, though, should be interpreted with caution. As Desbarats and Sik (2000:9) point out, land ownership in Cambodia is becoming increasingly concentrated, so averages can be misleading. Some land has been degraded over a long period and is no longer fertile, and landmines also restrict access to land.[2] The total area affected by mines, according to the Cambodian Mines Action Centre, is almost 2,800 square kilometres or 1.5 percent of the national territory. These areas

Table 2.2. Average Years of Schooling per Square Kilometre of Cultivable Land in Cambodia and Selected ASEAN countries

	Cultivable land area ('000 sq km.)	Active population (i.e. aged 15 – 64) (million)	Average years of schooling	Number of years of schooling per sq km of cultivable land (3x4) / 2
1	2	3	4	5
Cambodia	54	6	3.8	422
Laos	17	3	2.9	512
Vietnam	73	40	4.9	2,685
Indonesia	457	98	5	1,072
Philippines	105	30	7.6	2,171
Thailand	221	36	3.9	635
Malaysia	79	9	5.6	638

Sources: For Cambodia, Socio-economic Survey of Cambodia (SESC), 1997; for other countries UNDP, Human Development Report 1994 (data for 1992)

2 During the war, large parts of the country were bombed and mined. Some of the mine-affected areas have still not been cleared up.

are heavily concentrated geographically in Odder Meanchey, Pailin and Preah Vihear provinces. Agricultural land will somewhat increase with the clearing of mines, but this is a very slow process and will likely take several more decades to complete. Meanwhile, the pressure on land is mounting since occupational diversification is very limited and the labour force is rapidly increasing.[3]

The skill level of the population is an important element in an economy's factor endowment. Only an approximate measure of this is available (the average years of schooling of the active population), and on a comparative basis only for the early 1990s. Nevertheless, the comparison shown in Table 2.2 yields a useful insight into Cambodia's relative situation.

As can be seen, the contrast between Cambodia and most of its neighbours becomes greater when skill is incorporated into the analysis. This measure, adapted from the criterion of relative endowments of skills and land proposed by Wood (1994), suggests that Cambodia's economy is bracketed with that of Lao PDR at the bottom of the list in terms of number of years of schooling per square kilometre.[4] However, this particular comparative advantage is not permanent: increases in the labour/land ratio and/or expansion of education would affect ranking by average years of schooling per square kilometre. The gender gap in schooling, analysed below, may also have an influence on the comparative advantage.

Translation of comparative advantage into international competitiveness is affected by several special factors. To begin with, Cambodia is a dollar-denominated economy, in the sense that the US dollar is widely used as a store of wealth, a medium of exchange and a unit of account. As Jayant Menon, the author of one of the few articles on this topic puts it, essentially, it is the dollar that serves the function of money in the Cambodian economy (Menon 1998). Menon also points out that if the prices charged by foreign suppliers, the prices of these goods in the Cambodian market, and the prices of Cambodian goods in world markets are all denominated in dollars, then *dollarisation* is the equivalent of having a perfectly-fixed nominal exchange rate. This means that a crucial mechanism through which comparative advantage expresses itself – change in the exchange rate – is not available to this country. Other negative factors affecting realisation of comparative advantage include: the poor condition of roads and bridges; the inadequacy of power supply systems, transport, processing, quality control and storage facilities; the weakness of wholesaling and exporting firms; the imposition of high unofficial taxes and levies on farmers who want to export or produce for the market; and lack of institutional sup-

3 The subsistence nature of production and the consequent low productivity only worsens the situation.

4 This measure is not independent of the population pressure. Hence, it should be interpreted accordingly.

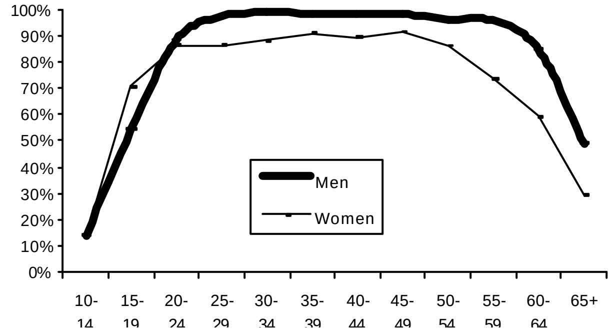
5 See, Chan (2000) for further discussion.

Table 2.3. Labour Force Participation Rates (%) by Sex and Location, 1999

	Cambodia	Urban	Rural
Male	68.6	62.6	69.7
Female	68.1	54.5	70.6

Source: SESC 1999 database

Figure 2.1. Labour Force Participation Rate, by Sex and Age Group, 1999



Source: SESC 1999 database

port.[5]

2.3. Structure of the Labour Market

2.3.1. Labour Force Participation Rates

Cambodia's labour force participation rate is one of the highest in the region with over 68 percent[6] of the population aged 10 or over in the labour force. There is very little difference in the average rate between men and women. As Table 2.3 shows, participation is higher in rural than in urban areas, and highest of all among rural women.

However, the age profile of labour participants differs between the sexes: as

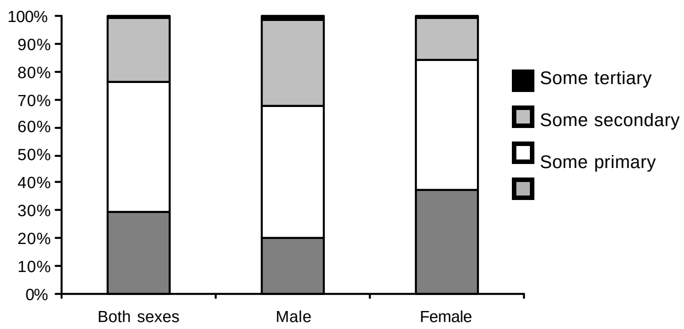
Table 2.4. Labour Force Participation Rates (%), in the Age Group 15-19 years,

	Male	Female
Aggregate participation	54.5	70.8
Participation by:		
currently in school	17.8	13.4
not currently in school	95.4	94.1

Source: SESC 1999 database

6 In this and other cases in this report the (weighted) figure derived directly from the database differs from that published in the official report on the survey. In the interests of internal consistency, this report uses figures derived from the databases in most cases. Where data come from published reports rather than from data-

Figure 2.2. Composition of Labour Force, by Sex and Education, 1999



Source: SESC 1999 database

Table 2.5. Three Categories of Literacy, by Sex, Cambodia, 1999

	Illiterate		Semi-literate		Literate	
	Number (millions)	Rate (%)	Number (millions)	Rate (%)	Number (millions)	Rate (%)
Male	0.7	24.7	0.8	27.7	1.3	47.6
Female	1.7	45.1	1.0	25.7	1.1	29.2
Both sexes	2.4	36.3	1.7	27.0	2.4	37.1

Source: RGC 1999

Figure 2.1 shows, women tend to join the labour force earlier than men.

This pattern, which is similar in both urban and rural areas, mainly reflects the difference in school enrolment rates between boys and girls. If those in school are distinguished from those currently not in school, as in Table 2.4, the reason for the difference in participation rates in the group aged 15-19 years is clarified: it is higher for males than for females in both categories, but overall it is higher for females because fewer of them are in school.

The low average level of education of the Cambodian labour force, already emphasised, is shown in Figure 2.2. Only 23 percent have any schooling above primary grades, and 29 percent have no schooling at all. Women are in a worse situation then men – only 16 percent have any schooling above primary, and 38 percent have no schooling.

Lack of schooling is reflected in a very high incidence of illiteracy. A recent survey (RGC 2000a) suggests that estimates of literacy rates, derived from socio-economic surveys, which rely on respondents to say whether they can read or write, give a false impression. The new survey administered a literacy test to a randomly-selected national sample of 6,548 respondents aged 15 years and above. Based on test scores, respondents were classified into three categories, as shown in Table 2.5.

Table 2.6. Labour Force Participation Rates (%) in the Group Aged 20-50 y e a r s

	Male	Female
Never married	86.7	92.1
Currently married	99	86.6
Widowed	96.1	95.9
Divorced	93.2	98.8

Source: SESC 1999 database

Table 2.7. Active Unemployment Rates (%) by Age, Sex and Stratum, 1997[7]

	Cambodia			Phnom Penh			Other urban			Rural		
	Both Sexes	M	F	Both Sexes	M	F	Both Sexes	M	F	Both sexes	M	F
14-Oct	1.6	1.41	1.86	15.1	20.6	9.47	5.08	2.68	6.56	0.8	0.56	1.02
15-19	1.8	2.09	1.7	19.6	19.9	19.46	4.3	5.3	3.69	0.64	0.84	0.5
20-24	1.57	2.12	1.11	8	8.9	7.13	3.86	5.47	2.47	0.84	1.2	0.54
25-29	0.75	0.84	0.67	3.29	3.9	2.51	2.1	2.4	1.75	0.37	0.33	0.41
30-34	0.25	0.34	0.16	0.47	0.79	-	-	-	-	0.26	0.33	0.19
35-39	0.3	0.12	0.5	1.29	0.38	2.41	0.36	0.66	-	0.18	-	0.35
40-44	0	0.72	-	0.28	0.58	-	0.43	0.9	-	0.3	0.72	-
Total	0.7	0.8	0.66	3.3	3.04	3.6	1.57	1.71	1.43	0.38	0.42	0.34

Note: Unemployment rates above the age of 44 are negligible; – = negligible; the definition used to label a person

The completely illiterate scored zero points in the test, the semi-literate could read and write only a few words and numbers, and the literate could use their skills in everyday life and income generation. The staggering implication is that 4.1 million Cambodians over the age of 15 (63 percent of the total) are not functionally literate. The situation of women, for whom the proportion of illiterate is 71 percent, is worse than that of men (52 percent). In both cases, illiteracy poses huge problems for productive employment generation.

Marital status is another important determinant of labour force participation. To prevent its effect from being swamped by the age structure, Table 2.6 confines itself to those in the most active age group, between 20 and 50 years. The highest participation rate is among currently-married men, but the participation rate for widows and widowers is also very high. Among women, for whom the participation rate traditionally varies because of reproductive responsibilities, the lowest is among those currently married, though it is still very high compared to international standards. Among those who never married, participation is higher among women than men.

2.3.2. Unemployment

Open unemployment does not appear to be significant in Cambodia's labour mar-

7 SESC data pertaining to 1997 are used because of problems with the questionnaires used in the 1999 SESC and in the 1998 census.

Table 2.8. Urban Unemployment Rates (% of labour force) by Level of Education, Age and Sex, 1997

	Primary or less			Some secondary			Some tertiary			Total		
	Both Sexes	M	F	Both sexes	M	F	Both sexes	M	F	Both sexes	M	F
15-19	11.8	12	11.7	17.5	16.2	18.8	-	-	-	14	13.8	14.1
20-24	9.7	12.3	7.7	11	12.5	10.2	18.5	31.4	0	9.3	11.1	9.3
25-29	7.1	6.9	7.2	4	3.9	3.5	8.4	10.6	0	5.3	7.00	5.3
30-34	4.9	0	8.8	1	0.6	1.8	3	3.8	0	3.2	5.2	3.2
35-39	2.7	2.1	3.2	0.6	1	0	0	0	0	2.2	1.2	2.2
40-44	2.1	1.7	2.5	3.2	3.3	2.9	0	0	0	2.5	1.3	2.5
Total	7	6.2	7.7	4.8	4.1	6.1	4.2	5.6	0	5.9	2.1	5.9

Note: The definition used in this table is more liberal than that in Table 2.7. Source: SESC 1997 database

ket. Indeed, when unemployment is strictly defined as 'not working even for one hour last week and seeking work', as in Table 2.7, active unemployment scarcely exists. This is for good reason because few can afford to be out of work for long. Those that can, are predominantly young urban residents, with little difference in incidence between the sexes.

Table 2.8, which uses a more liberal definition of unemployment, shows the extent of unemployment to be higher than that seen in Table 2.7. In any case, urban unemployment is expected to be higher, in view of the higher market penetration there. Next, there is more unemployment among females than males. The highest rates of urban unemployment also tend to be found among the young and more educated. This is partly because their more-prosperous families can finance the waiting time while a job is sought, and partly because affluent job seekers are unwilling to settle immediately for a job which is below the level they were expecting. Unemployment rates also vary inversely with age group: in the younger age groups, at all levels of education, female unemployment rates tend to be lower than those of males. However from the age of 30 years onwards, men do better (Table 2.8). The

Table 2.9. Percentage Distribution of Workers by Employment Status in Primary Job by Sex and Location, 1999

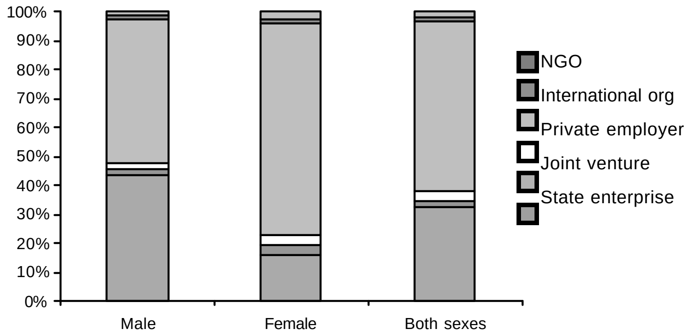
	Male			Female			Both sexes		
	Cambodia	Urban	Rural	Cambodia	Urban	Rural	Cambodia	Urban	Rural
Wage employee	19.6	46	15.3	10.9	21.2	9.5	15.1	33.8	12.2
Employer	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2
Own account	51	37.4	53.2	23.5	35.7	21.7	36.6	36.6	36.6
Unpaid family worker	29.1	16.3	31.2	65.3	42.8	68.5	48.1	29.3	50.9
Total	100	100	100	100	100	100	100	100	100

Source: SESC 1999 database

scarcity of women with tertiary education is indicated by their near zero unemployment rate!

2.3.3. Characteristics of the Employed

Figure 2.3. Wage Employees, Composition by Type of Employer and Sex,



Source: SESC 1999 database

The number of employed persons in 1999 was estimated at 5.6 million (98.5 percent of the labour force or 67 percent of the working-age population). Women constituted 52 percent of those in employment – representing similar proportions of the female labour force and working-age population. The early stage of development of the labour market is indicated by the fact that the largest single category of employment status is unpaid family workers; only 15 percent of workers are wage employees (Table 2.9). In rural areas over one-half of the workers are engaged in unpaid work on family farms or other enterprises, and wage employment accounts for a little more than one-tenth of the total. The incidence of wage employment is much higher among men than women, particularly in urban areas, while women are over-represented among unpaid family workers. The sexes are equally represented in own-account work (self-employment) in urban areas, but not in rural areas where men are over-represented in this category.

More than one-third of wage employees work for government or state enterprises, 3.5 percent (most of them with higher-than-average education) for NGOs or international organisations, and 62 percent for private employers or joint ventures. As Figure 2.3 shows, men are over-represented in government/state enterprise employment (accounting for 45 percent of male wage earners compared to only 19 percent of female). Women are over-represented in private employment/joint ventures (77 percent of female wage earners compared to 52 percent of male wage earners) and international and non-government organisations (4.3 percent of females compared to 3 percent of males).

An important feature of the Cambodian labour market is the high proportion of workers who have more than one job (hence the reference in the title of Table 2.9 to 'primary job'). In 1999, 32 percent of women and 38 percent of men (averaging to 35 percent of both sexes) held more than one job. The incidence of multiple-job

Table 2.10. Composition of Employment by Sector of Primary Employment and Percent in Each Sector with More Than One Job, by Sex, 1999

	Men		Women		Both sexes	
	% in this sector	of whom % with	% in this	of whom % with	% in this sector	of whom % with 2+
Agriculture, hunting, forestry	70.3	46	77.1	37	73.9	41
Fishing	3.3	13	1	13	2.1	13
Mining, quarrying	0.1	38	0.1	0	0.1	18
Manufacturing	3.9	17	6.5	12	5.3	14
Electricity, gas, water	0.2	19	0.1	0	0.1	12
Construction	2.6	12	0.3	11	1.4	12
Wholesale, retail trade	3.9	13	10.6	12	7.4	12
Hotels, restaurants	0.4	0	0.4	8	0.4	4
Transport, stor age, commun.	4.3	10	0.4	32	2.3	12
Financial services	0.1	0	0.1	0	0.1	0
Real estate etc.	0.3	25	0.1	0	0.2	19
Public admin, defence, etc.	6.1	36	0.6	16	3.2	34
Education	2.2	56	0.9	39	1.5	50
Health, social work	0.4	48	0.5	32	0.5	38
Other services	0.8	10	0.6	11	0.7	10
Private households	0.7	5	0.6	11	0.6	8
International orgs.	0.4	0	0.2	0	0.3	0
Total	100	38	100	32	100	35

Source: SESC 1999 database.

holding can be analysed by the sector of activity and occupation, as in Tables 2.10 and 2.11.

The overwhelmingly-agricultural nature of the economy and labour market too can be seen from Table 2.10. More than three-fourths of Cambodia's workers (nearly four-fifths in the case of women) are engaged primarily in agriculture, hunting, forestry and fishing. The other sectors, in order of importance, are wholesale and retail trade, manufacturing, and public administration and defence, though they only account for small proportions of the total employment. Apart from agriculture, women are over-represented in manufacturing and trade, men in fishing, construction, transport, public administration and defence and education. Women's concentration in manufacturing has its basis in the fact that garment manufacture is the biggest industry and it employs women workers in large numbers.

The incidence of multiple job holding is the highest in the education and agricultural sectors, as might be expected, since agriculture is seasonal and teachers can provide coaching classes or private tutoring because the school system is not very efficient. Multiple job holding is also high in health, social work, public administra-

tion and defence. As noted, this is higher for men than for women. It's particularly high among males in the education, health and agricultural sectors. The plain truth is

Table 2.11. Composition of Employment by Primary Occupation and Percent in Each Occupation – With More Than One Job, by Sex, 1999

	Men		Women		Both sexes	
	% in this	of whom % with	% in this	of whom % with	% in this sector	of whom % with
Legislators, senior						
Professionals	3.5	40	1.4	34	2.4	38
Technicians/associate						
Clerks	0.2	19	0.1	0	0.2	12
Sales workers	3.7	10	9.9	12	7	11
Skilled Agr./ fishery						
Craft etc. workers	4.2	15	6	11	5.2	12
Plant/ machine opera-						
Unskilled occupations						
Armed forces	1.9	30	0.2	32	1	30
Total	100	38	100	32	100	35

Note: Agr. refers to agriculture. Source: SESC 1999 database

Table 2.12. Statistics on Child Labour in Cambodia, 1999

	Age 5 – 9	Age 10 – 13	Age 14 – 17
% of children working or with job			
Urban:			
Male	1	4	17
Female	1	4	29
Rural:			
Male	3	11	39
Female	3	10	53
Total:			
Male	3	10	36
Female	2	9	50
Average hours worked per week	33	37	47
Average weeks worked per year	35	35	37
Work status in primary job			
Paid employee	4	3	9
Own account worker	7	9	5
Unpaid family labour	89	88	87
Industry of primary job			
Agriculture, fishing, forestry	...	91.9	86
Trade	...	4.6	5.9
Manufacturing	...	2.8	4.5
Services	...	0.5	1.5
Construction	...	0.2	1.4
Other	...	0.1	0.7
Primary occupation			
Farm, fishery, forestry workers	...	88.2	83
Sales workers	...	3.8	5.6
Crafts workers	...	3.2	4.3
Other	...	4.8	7.1

Source: RGC 2000b

that people work in more than one job because no single job pays most workers enough to eke out a desirable living. Perhaps there is gender balance because men can find more time while women can't, due to domestic responsibilities.

The pattern of employment by occupation also reflects the sector of employment. As Table 2.11 shows, skilled agricultural workers predominate, accounting for almost three-fourths of the total. Women are again over-represented in such occupations, and also in sales and craft-related work. They are substantially under-represented among legislators, senior officials and managers, professionals, technicians, plant and machine operators and the armed forces. There clearly is a gender division of labour; usually, women are not in high-status or high-skilled jobs.

The incidence of multiple job holding is also as would be expected from the previous table. Almost two-thirds of legislators, senior officials and managers hold more than one job. The high proportion of professionals and members of the armed forces in this category is also notable. Again, the incidence is higher in most occupations among men than among women; perhaps more women get into self-provisioning than men.

2.3.4. Child Labour

The Cambodia Human Development Report for 2000 includes a special study of child labour, based on the 1999 Socio-economic Survey (RGC 2000b). Table 2.12 summarises some of its findings.

The proportion of very young working children (between ages five and nine) is negligible, but this rises in the older age group of 14-17 years, to around 42 percent. The incidence of child labour is higher in rural than in urban areas, and lower for girls in the younger age groups, but lower for boys in the upper age groups. This reflects the difference in school enrolment rates, which emerges after the age of 12. By the time children reach age 17, only 32 percent of girls are still in school, compared with 59 percent of boys. An important finding of the survey is that child labour is not a part-time or purely-seasonal phenomenon: average hours worked per week vary from 33-47 and average weeks worked per year from 35-37, depending on age group. There is a clear conflict between schooling and child labour. An overwhelming majority of working children are engaged in unpaid family labour, almost all of them in agriculture, helping on family farms. The survey does not record the type of work done by children, but their tasks are known to include ploughing, transplanting rice, pumping water into rice fields, collecting water to irrigate crops, weighing and harvesting rice, carrying rice from farms, grazing cows, and catching fish (RGC 2000b:34). Unlikely to have been captured by a household-based sample survey of this kind is domestic work outside a child's home, and the worst forms of child labour: prostitution, begging and scavenging (often the main activities of street chil-

Table 2.13. Average Monthly Wages from Primary and Secondary Jobs of Wage Employees Aged 15 Years and More, by Location, Schooling, Age Group, Sector of Primary Employment and Sex, 1999 ('000 riels)

	Men	Women	Men as % of women
By location:			
Urban	217	182	119%
Rural	139	112	124%
By completed schooling level:			
Primary or less	143	125	114%
Lower secondary	152	156	97%
Upper secondary	209	175	119%
Post secondary	263	217	121%
By age group:			
15-24	126	127	99%
25-34	171	126	136%
35-54	175	128	137%
55+	127	84	151%
By sector of primary employment:			
Agriculture, forestry, fisheries	138	113	122%
Manufacturing	228	161	142%
Utilities	234	…	…
Construction	185	142	130%
Trade	253	83	305%
Transport, storage, communication	205	133	154%
Services	129	151	85%

Source: SESC 1999 database

Table 2.14. Net Daily Earnings of Vulnerable Workers, by Occupation and Gender, August 2000

	Males		Females		Male as % of female
	Riels per day	Index (lowest = 100)	Riels per day	Index (lowest = 100)	
Cyclo drivers	9,511	385	--		
Porters	8,068	326	--		
Traders	8,092	327	6,611	312	122%
Scavengers	4,077	165	4,250	201	96%
Garment workers	11,550	467	8,269	390	140%
Rice field workers	4,400	178	4,450	210	99%
Waiters/ waitresses	2,473	100	2,118	100	117%
Construction workers	14,891	602	--	--	--
Casual unskilled workers	8,220	332	--	--	--
Moto taxi drivers	11,044	447	--	--	--

Source: CDRI August 2000 Vulnerable Workers Survey

dren). The Cambodia Human Development Report (RGC 2000b:36) quotes rough estimates of 5,000 commercial sex workers under the age of 18, 1,000 street children, and 6,500 domestic workers aged 14-17 years, in Phnom Penh alone.

2.3.5. Earnings Behaviour

The Socio-economic Survey of 1999 collected data on earnings from different types of workers. Those for wage-earners are probably the most reliable; they are summarised in Table 2.13. There is considerable difference between the wages of men and

women. On average, men earn 23 percent more than women; the differential is slightly higher in rural areas. Men earn higher wages than women in all education categories except lower secondary, and in all age groups, except those aged 15-24 years. Both these exceptions may reflect over-representation of women – many of them working in the garment industry have lower-secondary education. Within every sector, men's wages are higher – the gap is more than 300 percent in the case of trade.

For both sexes, wages in urban areas are much higher than rural, and the premium on post-secondary education is considerable – 84 percent more compared to those with primary education for men, and 74 percent for women. There is not much career progression in either case, scarcely any for women, who earn little more in the group aged 35-54 years, than in those aged 15-24 years, and suffer a big drop in earnings after age of 54. Sectoral differentials are also quite large. Trade is the highest-paying sector for men, and manufacturing for women.

Net daily earnings towards the bottom end of the labour market are measured in regular CDRI surveys of vulnerable workers. This has proved a useful series for monitoring changes in the labour market[8] and can also be used to throw light on relative earnings of such workers. Table 2.14 shows daily earnings reported in August 2000.

Earnings differentials between occupations are large for male workers; as can be seen, skilled construction workers earn more than six times as much as waiters. Garment workers and motorcycle-taxi drivers are also near the top of the range. The distribution for female workers is less stretched out, with garment workers earning around four times as much as waitresses. In both cases, the relatively-high earnings of garment workers show why these jobs are prized in spite of the conditions of work. In both cases, agricultural wages are higher than the lowest remuneration in urban areas, i.e. of waiters/waitresses and scavengers – reinforcing the suggestion that rural areas do not necessarily have more surplus labour than urban.[9] Earnings differentials between men and women for same/similar occupations also vary. Men earn 40 percent more than women in garment factories, but less than women in agriculture and scavenging (though scavengers often work on a household basis so it is difficult to distinguish the earnings of individuals; therefore this comparison is approximate and not accurate).

As adjudged from Tables 2.13 and 2.14, differentials between wage earners and the top categories of self-employed do not appear to be large. Average urban wages

8 See below for more details of the survey and discussion of the impact of crisis on earnings of some of these groups.

9 Earnings of waiters and waitresses here do not include meals that most may get. Their inclusions, though, may not disturb the rankings significantly.

in Table 2.13 are not much different from the daily net earnings of cyclo drivers, porters and traders, and lower than those of motorcycle-taxi drivers. Wages of waiters and waitresses are so far below the urban average that a need for further investigation is suggested.

2.4. Distortions in the Labour Market

As may have already become apparent, Cambodia's labour market is distorted in several ways, particularly through segmentation by gender, the size of the external assistance sector in the more-educated segments of the market, and the large size and low pay of the civil administration, defence and security forces. This section looks at each of these distortions in turn.

2.4.1. By Gender

Women are at a disadvantage in the labour market, owing partly to their much lower average level of education. The combined first, second and third-level enrolment rate for females in 1999 was only 44 percent, compared with 55 percent for males, and only 16 percent of women in the labour force have had more than primary education, compared with 24 percent of men. Next, the adult functional literacy rate for women is only 29 percent compared with 48 percent for men. Seen across different occupations and status categories, women are over-represented among unpaid family workers, farmers, and sales and craft workers. Across different industry categories, they are in the agriculture, trade and manufacturing sectors. They are under-represented among wage earners in general and government employees in particular. Their absence among legislators, senior officials and managers, professionals, technicians, plant and machine operators, and the armed forces is notable. Also, except in the case of those with lower-secondary education, they command lower wages than men with the same level of schooling.

Segmentation of the labour market by gender suggests a need for vigorous implementation of anti-discrimination legislation, but the need to rectify the imbalance in the education system may be even more urgent. Here, the issue of the differentially high rate of dropout from school by girls needs to be addressed. Emergency non-formal programmes, aimed particularly at adult women, are also needed to deal with Cambodia's literacy crisis.

Mass campaigns that involve a majority of illiterate adults, rather than small selective programmes, have been an essential part of every successful effort to eliminate illiteracy (Chunkath 1996). Cambodia had two such campaigns in the 1980s covering more than a million people, but the short duration of the programmes and the absence of post-programme support reduced their effectiveness. In any such programme there are many lessons to be learned from current projects and

approaches, such as those of UNESCO, the Cambodian Women's Association, UNICEF, CARERE and a large number of NGOs. A mass campaign should not be marginalised but should use a national network of educational facilities, such as the cluster schools, with community participation. The poverty of those involved should be recognised. Food will need to be provided to participants who may be missing a day's work for attending the programme. This makes a literacy campaign a more effective, self-defining, anti-poverty programme. Literacy and teaching should be linked to actual or potential income-generation activities, both to maximise the productivity impact and to ensure that reading ability is subsequently maintained. For the same reason, community libraries (or in UNESCO terms, development resource centres) should be established. In short, there are plenty of ideas on literacy programmes in Cambodia and people able to build the capacity to implement them. What is needed is funding and a national framework with strong implementation capacity for a mass campaign. It is believed that with a strong educational input a large part of the gender gap will be bridged.

2.4.2. By External Assistance Sector

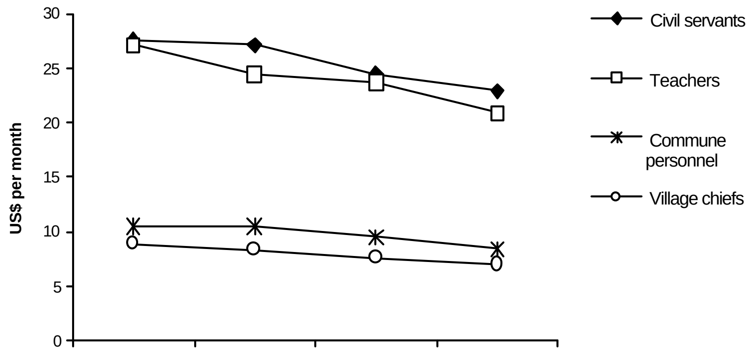
The labour market is also distorted by a large presence of external, multilateral and bilateral assistance agencies, and non-government organisations, which employ a large proportion of the most highly-educated and skilled Cambodians.

Cambodia receives a huge amount of external assistance in relation to other sources of foreign exchange and to the government budget. In 1998, although below its levels of a few years earlier, the US$404 million assistance received was equivalent to 14 percent of the GDP. This formed 70 percent of foreign exchange earnings from exports, more than double the total tax revenue and more than three times the level of non-defence government expenditure (Godfrey *et al* 2000:11). Such large amounts raise the possibility that foreign aid brings a modified version of 'Dutch disease'[10] to Cambodia, operating not through exchange rate appreciation (because of dollarisation, discussed in the earlier section), but through the labour market.

A high proportion of the country's most qualified people are attracted to the external assistance sector, both as full-time staff of agencies and projects and as salary-supplemented counterparts. Almost two-thirds of the 45 middle-level counterparts (in government and local non-government organisations) interviewed in a CDRI study of technical assistance and capacity development had a bachelor's de-

10 Dutch disease was the name given, following the experience of the Netherlands in the 1970s with expansion of its natural gas production, to the negative impact of a windfall increase in foreign exchange earnings from a particular source (usually mineral exports) on the rest of an economy. Although usually linked to mineral booms, the disease, it has been suggested, can also be transmitted through massive

Figure 2.4. Average Monthly Pay of Government Employees in US$, 1995 to 1998



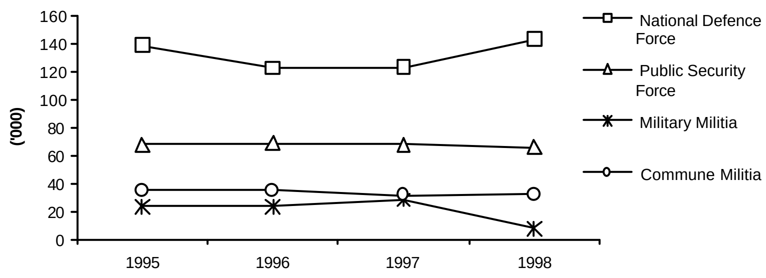
Source: Kato *et al* 2000, Table 3, based on data from the Ministry of Economy and Finance

gree or higher qualification (Godfrey *et al* 2000:32). A similar proportion of the 27 Cambodian staff members working full-time for projects who were interviewed had similar qualifications. Over one-half of these staff members said that their immediately-previous job was in government and an additional one-third had come from another international agency or NGO, having worked for government prior to that. These two categories together accounted for more than 85 percent of the respondents.

Cambodians are attracted to the external sector because of the high level of supplementation/remuneration offered by them, both as counterparts and as staff members. Forty-five current counterparts reported that they received, on average, around US$2,300 *per annum* in supplementation from the projects to which they were assigned, in addition to their government salaries. Projects reported unit costs per year for local experts to be around US$6,600 in those executed by international NGOs, and around US$15,700 in those executed by multilateral/bilateral agencies or companies. This unit cost includes non-salary elements, but it implies a level of salary that is high compared with available alternatives (Godfrey *et al* 2000:54). These payments are likely to bid up wages of the most-qualified people in the labour market as a whole, thus raising the cost of actual and potential skill-intensive activities in tradable sectors, and reducing their profitability and the incentive to invest in them. The Cambodian economy and labour market would obviously look very different with a much smaller external assistance programme.

2.4.3. By Large Size and Low Pay of Civil Administration, and Defence and Security Forces

Figure 2.5. Number of Regular and Special-status Staff, Armed Forces, 1995-1998

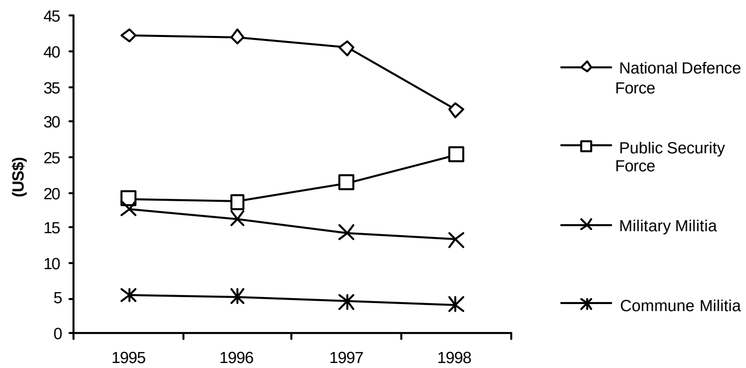


Source: Kato *et al* 2000, Table 4, based on data from the Ministry of Economy and Finance

Another source of distortion in the labour market is the large size and low level of remuneration of the civil service (central, municipal, provincial and local, including teachers) and the defence and security forces.

In 1999, according to data from the Council of Ministers, the total number of central and provincial civil servants was 163,000, or 1.4 percent of the population. In addition, there are some employees classified as 'special status' (21,000 in 1998), such as commune personnel and village chiefs, on the payroll of the government.

Figure 2.6. Average Monthly Pay of Armed Forces, in US$, by Category, 1995 - 1998



Source: Kato *et al* 2000, Table 4, based on data from the Ministry of Economy and Finance

11 For more details of the number of central and provincial civil servants by ministry, see Kato *et al* (2000), Table 2.

The Ministry of Education, Youth and Sports (MOEYS) is the largest in terms of staff, accounting for nearly 50 percent of total civil servants in the country, followed by the Ministry of Agriculture and then the Ministry of the Interior. The central administration employs as many as 37 percent of the non-MOEYS civil servants.[11]

The number of civil servants per head is not particularly high in Cambodia compared with other Asian countries, but the size of the civil service is certainly large in relation to the amount of government revenue available to fund it. The share of budget revenue in GDP in 1999, at 11.3 percent, was the highest it has been since the early 1970s, but still one of the lowest compared with other countries in the region. Moreover, defence and security accounted for more than 42 percent of current government expenditure, severely limiting the amount available for the civil administration. As a result, salaries in the civil service are among the lowest in Asia. As Figure 2.4 shows, non-teaching civil servants are paid less than the equivalent of US$23 per month, and teachers get even less. Inflation and devaluation have eroded average wages (paid in riels) so that in current dollar terms they were 19 percent lower in 1998 than they had been four years earlier. Even at the top end of the scale, public officials, including judges and prosecutors, receive wages far below subsistence levels.

In addition to the civil administration, as Figure 2.5 shows, a large number of defence and security force members are on the public payroll. Military personnel totalled 143,000 in 1998, 1.25 percent of the population. This figure is much higher than those of neighbouring countries, placed at 0.75 percent in Vietnam and 1.02 in Lao PDR, both of which also experienced long periods of armed conflict. The number of regular staff for public security (police of various kinds) was 66,000 in 1998. The special status staff – military and commune militia – stood at 40,000.

Average wages for regular staff in the national defence force (at US$32 per month) and the public security force (at US$25) are higher than those paid in the civil administration. But these are still well below subsistence levels and, as Figure 2.6 shows, except in the case of the public security force, have been similarly eroded by inflation and devaluation of the riel in the past few years.

The labour market is seriously distorted by this combination of large size and low wages in the public sector (both civilian and in uniform). A relatively high proportion of the population is being diverted away from potentially more productive work. Salaries are so low that public sector employees of all kinds are full-time or part-time absentees from their posts, earning the money they need to stay alive (to the detriment of efficiency on the job). As Table 2.10 above shows, 34 percent employees in public administration, defence and security admitted to having additional jobs in 1999, as did 50 percent of those in education and 38 percent in health and

social work. Public servants whose wages are below subsistence level are more likely to be tempted by bribery and corruption. Many of the more educated who could make an important contribution in the public sector prefer better-paid work in aid agencies and NGOs. Reform of the civil administration and the military is thus a prerequisite to the achievement of a properly- functioning labour market.

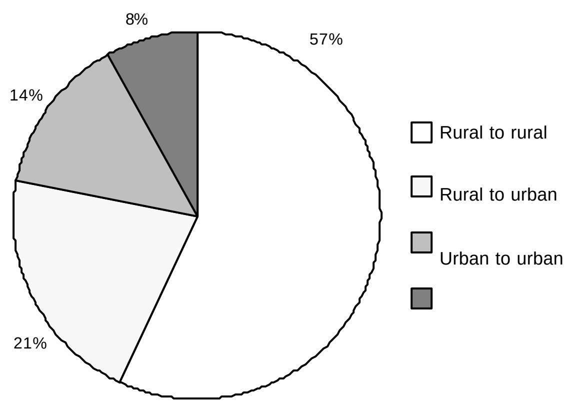
The extent to which reform of the civil administration would involve downsizing is not clear. The CDRI/ADB governance report judged that "Cambodia's public administration may not be bloated; instead, it may be more a problem of having the wrong people doing the wrong things" (Kato *et al* 2000:63). Some ministries have a surplus of unqualified staff relative to their functions, others need more staff with more specialised skills. Most important, the size of the public service must be in proportion to tax revenue, so that each of its members can be paid a living wage. In this regard the national defence and security forces are definitely too large. Demobilisation of the military is expected to reduce the number of soldiers in the armed forces to 100,000 by 2003 (World Bank 2000) – 30 percent below the level of 1998, as shown in Tables 2.10 and 2.11 above. The target for the police is even more drastic – to reduce the number by 45 percent to 36,000 by 2003

Table 2.15. Migrants From Rural Areas 1996 and 1998

	1996 Demographic Survey	1998 Population Census	2-year increase
"Recent" rural migrants	634,786	881,439	38.9 %
"Very recent" rural migrants	172,305	273,534	58.7 %

Source: Compiled by CDRI

Figure 2.7. Rural-rural, Rural-urban, Urban-urban and Urban-rural Migrants as % of All Migrants, 1998



Source: Census of 1998

(*Cambodia Daily*, October 19, 2000). Such cuts obviously will raise political dangers, but their implications for the labour market may be less problematic than they appear. Some soldiers and police already have a second job or family farm/business to fall back upon – the Socio-economic Survey of 1999 revealed that 30 percent of members of the armed and security forces had at least one other job. The aim of policy in relation to the labour market (discussed further below) should be to make sure that those who do not have such opportunities could be productively reabsorbed into civilian economic activity.

2.5. Internal and International Migrations

The completion of a population census in 1998, the first since 1960, has at last enabled a picture of internal migration to be built up. Information on migration from Cambodia to other countries and from neighbouring countries to Cambodia is more difficult to obtain, and reliance has to be placed on small-scale surveys. Immigrants from neighbouring countries draw special attention here because of their (to an extent) illegal presence and their occupation of jobs that the locals believe, though not necessarily correctly, could be theirs.

2.5.1. Internal Migration

There is overwhelming evidence that more and more rural Cambodians, largely as a consequence of growing landlessness and rural poverty, are leaving their villages. At this time, the country has no nationwide data set that precisely measures migration

Table 2.16. Percentages of the Total Population – "Recent" and "Very Recent"

	1996 Demographic Survey	1998 Population Census
In Rural Areas		
"Recent" Arrivals	1.88	2.44
"Very Recent" Arrivals	6.93	8.10
In Urban Areas		
"Recent" Arrivals	3.59	7.12
"Very Recent" Arrivals	13.84	22.44

Source: Compiled by CDRI

12 Neither the 1996 Demographic Survey nor the 1998 Population Census directly measures migration flows *per se*. These data only refer to the last move made. They are then sorted by duration of stay at the place of enumeration by one-year and five-years, the two most commonly used reference periods. This paper uses data with both one-year and five-year reference periods. For the sake of simplification, persons who had resided at their place of enumeration for less than a year

flows over time.[12] Nevertheless, comparison of the 1996 Demographic Survey data with the 1998 Population Census data, does provide an indirect way to estimate recent trends in internal migration, particularly migration out of rural areas.

Rural out-migration, whether it is to urban areas or to other rural areas, is increasing. The 1998 Census counted a total of 881,400 persons who had moved from a rural area within the five years prior to the Census. As Table 2.15 shows, of these, almost one-third (31 percent) had moved within the previous 12 months.

By comparison, the 1996 Demographic Survey estimated that some 634,700 persons had moved from rural areas within the five years prior to the Survey. Of these, 27 percent had moved within the previous 12 months. These figures show a clear acceleration of the rural exodus. This has been happening even though the proportion of the rural population in the total population is gradually decreasing, indicating that the rural population is increasingly willing to move if necessary to seek a livelihood.

Data also indicate that rural migrants who leave their villages tend to move over greater and greater geographic distances, as an increasing proportion moves to a different province. Among the "recent" migrants from rural areas, the proportion of inter-provincial migrants rose from 37 percent in 1996 to 44 percent in 1998. This trend is even more noticeable in the case of "very recent" migrants (51 percent of whom were inter-provincial migrants in 1998 compared to 41 percent in 1996). Yet, in contrast to popular perception, the majority of the rural migrants do not end up in cities. More than one-half of the people who left their villages within one year before the Census, as Figure 2.7 shows, moved to another rural area.

As a result of increasing geographic mobility, most places in Cambodia, whether urban or rural, now include significant and fast-rising proportions of "newcomers". This is especially noticeable in urban areas. Comparing the proportions of the total population made up of "recent" and "very recent" arrivals between 1996 and 1998 shows that even in rural areas, as Table 2.16 shows, the proportion of newcomers has been increasing.

In 1996, it was estimated that the "very recent" migrants made up less than 2 percent of the rural population and the "recent" migrants, represented 7 percent of it. In 1998, these proportions had risen in a small way, to 2 percent and 8 percent, respectively.

Increase in the proportion of newcomers is more pronounced in urban areas. Here the percentages of both "very recent" and "recent" migrants have exploded, almost doubling in the two years between the Demographic Survey and the Population Census (from 3.6 to 7.1 percent in the first case, and from 13.8 to 22.4 percent

in the second case). Thus, almost one-fourth of the 1998 urban population was living elsewhere five years earlier. Such striking figures raise questions not only about the adequacy of urban infrastructure to accommodate newcomers, but also, and perhaps more seriously, about growing feelings of rootlessness and the related threat to traditional community spirit and values.

Census data on net out-migration at the provincial level show that migrations within Cambodia largely originate from just a few provinces. In 1998, five provinces accounted for over one-half of all "recent" provincial out-migrants. Four of these were provinces with the highest rural population densities. They are Kompong Cham, Prey Veng, Kandal, and Takeo, all relatively near Phnom Penh.

According to the 1997 Socio-economic Survey, these provinces are also characterised by relatively small average farm sizes: well below one hectare in three provinces and barely above one hectare in the other two. This migration pattern seems well-entrenched and fairly stable, judging from the very similar results obtained by analysing "very recent" migrants instead of "recent" migrants, for both 1996 and 1998.

Provincial-level census data on in-migrants helps identify provinces that attract inter-provincial migrants. Provincial in-migrations are even more concentrated geographically than out-migrations. In 1998, five provinces received over 60 percent of provincial in-migrants. Of course, the top destination was Phnom Penh, which alone received about one-third of all inter-provincial migrants, followed by Kandal, Banteay Meanchey and Koh Kong. Two rural provinces, namely Koh Kong and Banteay Meanchey, with the highest average farm size and low population densities, figured in this list. The geographic pattern of provincial in-migrations appears to have changed little relative to the pre-1969 period.

Youth and young adults are disproportionately represented among migrants. Youth aged 15 to 24 years, who make up 18 percent of the total population, accounted for 30 percent of the "very recent" migrant flows. Young adults (aged 25-29 years), who represent less than 8 percent of the total population, made up 13 percent of the migrant flows. Furthermore, very young children under five years (presumably moving with their parents), make up a significant 9 percent proportion of the migrants.

Men make up just a little over one-half of the total number of migrants. The sex ratio is slightly more unbalanced in favour of men in the group aged 20-29 years. Sharper differences in sex-composition are visible in migration streams to some provinces. For example, females made up 56 percent of "very recent" migrants to Phnom Penh. This reflects the opening up of numerous garment and shoe factories in the capital that started attracting rural women in 1997 and 1998. Conversely, men

made up well over 60 percent of "very recent" migrants enumerated in Preah Vihear, Odder Meanchey and Mondolkiri provinces. In the first two provinces, the proportion of males was over 80 percent. This suggests a strong movement of single males, possibly employed with the army, into these "frontier areas" between March 1997 and March 1998.

Of the total migrants who had left their villages less than one year before the census date, 29 percent stated that their principal reason for moving was the need to search for employment. Another 25 percent stated that they needed to follow their families. There were few differences in the reasons given by male and female migrants, though there were slightly more females likely to move for family reasons and slightly more males likely to move for education and marriage.

2.5.2. International Migration

Cambodia is in an intermediate position in the regional labour market – receiving migrant workers from Vietnam on the one hand, and sending their own workers to Thailand, on the other. Little is known about these flows, most of which are unofficial in nature. Existing large sample surveys have so far failed to capture them, partly because migrant workers are unwilling to identify themselves. CDRI carried out two small-scale rapid assessment surveys in April–May 2000 to try to learn more about the nature and consequences of these population movements.

Individual and group interviews were conducted with NGO field staff, village chiefs, Vietnamese Associations and individual workers of Vietnamese origin, in selected villages of Kompong Chhnang and Phnom Penh. This was done in collaboration with the Women's Development Association and the Khmer Kampuchea Krom Human Rights Association. Similarly, in collaboration with the Krom Akphiwat Phum and Banteay Meanchey Provincial Department of Women's and Veterans' Affairs, individual and group interviews were conducted with NGO field staff, village chiefs, village development committees and individuals who had worked in Thailand, to obtain information about Cambodian migrants. These were conducted in selected villages in Battambang and Banteay Meanchey. Information collected in a survey carried out a year earlier has also been used in the analysis (reported in Chan and Sovannarith 1999).

Table 2.17. Average Daily Earnings of Workers of Vietnamese Origin in Kompong Chhnang and Phnom Penh, by Occupation, April 2000

Occupation	Earnings (riels)	Occupation	Earnings (riels)
Fisherman	10,314	Service worker	12,231
Trader	13,419	Unskilled worker	8,567
Other skilled worker	20,511	Garment worker	7,600
Construction worker	18,882	---	---

Source: CDRI interviews

Table 2.18. Daily Earnings in Cambodia Compared to Earnings Reported by Migrants in Thailand (by Occupation – US$)

In Cambodia, Apr/May 1999		In Thailand, April/May 2000					
					Average earnings		
Type of work	Av. earnings	Type of work	No. of workers	of whom female (%)	Both sexes	Men	Women
Fishing	0.5	Construction	142	20	3.7	3.8	3.1
Hunting/gathering	0.5	Porter	54	6	6.1	6.2	3.9
Firewood collect.	0.7	Agriculture	31	52	2.2	2.1	2.2
Agriculture	0.8	Food Prod.	20	35	3.9	4	3.7
Construction	1.6	Garments	18	100	3.5	-	3.5
Small trade	1.5	Fishing	12	0	3.5	3.5	-
Moto taxi driver	1.9	Shop-work	11	100	3.2	3.9	3.2
Handicrafts	0.8	Other	18	78	4.8	5.4	4.6
Other	0.9	Total	306	32	4	4.3	3.3

Sources: CDRI interviews with Village Chiefs and Village Development Committees

2.5.2.1. Vietnamese Migration to Cambodia

Almost all Vietnamese who had lived in Cambodia for generations were deported after Lon Nol seized power in 1970 and thereafter during the Khmer Rouge regime. During the 1980s they gradually returned to Cambodia, along with friends, relatives and, of course, the Vietnamese army and advisers. At the end of the 1980s, when Vietnamese troops withdrew from Cambodia, some are believed to have remained behind. In the 1990s a new wave of immigrants from Vietnam were attracted by the opportunities offered by a growing market economy.

The scale of such immigration is very difficult to estimate. Very roughly, if Cambodia's population in 1985 is estimated at 7.5 million, natural growth might be expected to have brought it to around 9.9 million by 1998. If 360,000 repatriated refugees and their offspring are added to that, the total becomes around 10.3 million. The actual total enumerated in the 1998 Census was 11.4 million, implying a contribution of a little over one million by immigrants and their subsequent offspring.[13] Another estimate, provided by the governments of eight provinces (Kandal, Battambang, Phnom Penh, Takeo, Kompong Chhnang, Pursat, Prey Veng and Siem Reap), which represent some 53 percent of the country's population, places the population of Vietnamese origin at 227,000 in 1995.[14] Yet another estimate, provided by the Kompong Chnnang Immigration Office, stated that there had been a big increase in the number of persons of Vietnamese origin in the province since the 1980s – from 1,269 households having 7,064 persons in 1985 to 2,708 households with 13,445 persons in 1997.

13 This includes the numbers of *Khmer Kampuchea Krom*, who are people of Cambodian origin but are naturalised Vietnamese citizens.

14 Estimate obtained from Khmer Kampuchea Krom Human Rights Association.

Interviews with 141 workers of Vietnamese origin revealed that the motives for migration were overwhelmingly economic; better opportunities to earn money in Cambodia were cited by almost all of them. On the demand side, lack of local skilled workers offers opportunities to immigrant construction foremen, wood processors, machine repairers, etc. On the supply side, weak controls on immigration into Cambodia contribute to the flow. Since the mid-1990s the unofficial fee to cross the border is reported to have been between US$30 and US$50, and no work permit is needed. A few of those interviewed had acquired a Cambodian identity card, the unofficial fee for which is reported to be between US$50 and US$100. They are also subject to informal levies by the police – ranging from 1,000 riels to 20,000 riels per month in the survey villages.

The occupations of these migrant workers vary with their location. Those interviewed in Kompong Chhnang were almost all involved in fishing, the year round. These small-scale fishermen earned on average around 10,000 riels per day (see Table 2.17), and 65 percent of their households had substantial additional earnings from raising fish in cages submerged in water. Key informants reported much higher earnings from medium- and large-scale fishing, which is dominated by Vietnamese owners and workers. However, in addition to fishing permits, the cost of which ranges from US$16 to over US$50,000 depending on the size of the operation, unofficial checkpoints levying at a rate of between 500 and 2,000 riels also have multiplied. This has further encouraged the use of illegal fishing methods, much to the detriment of the fish stock. Respondents reported that the catch in the year 2000 is about 40 percent below the level prevalent in the 1980s.

In Phnom Penh most of those interviewed worked as construction workers, traders and skilled workers in machinery and electronic repair workshops, wood-processing enterprises, and the like. About 80 percent of contractors and supervisors in the construction industry too have been estimated to be of Vietnamese origin. Employers of skilled workers said that they preferred to employ workers of Vietnamese origin because they considered them to be more professional, with better skills, and work harder, faster and more patiently than the locals. Cambodian workers tended to be confined to less skilled work, for example, in carrying sand, gravel and cement in the construction industry, for about 6,000 riels per day.

Although sex workers were not included in the survey samples, most representatives of local authorities claimed that businesses in this sector are to an extent run and staffed by persons of Vietnamese origin. In the survey villages these migrant women work in brothels, Karaoke bars, massage parlours, dance halls and 'coin-rubbing' places. Those who work in dance halls operate independently, but others are obliged to receive customers under the strict control of the brothel owners. The owners charge each customer between 5,000 and 70,000 riels. The workers, who

receive up to 15 customers per day, are paid only a subsistence wage.

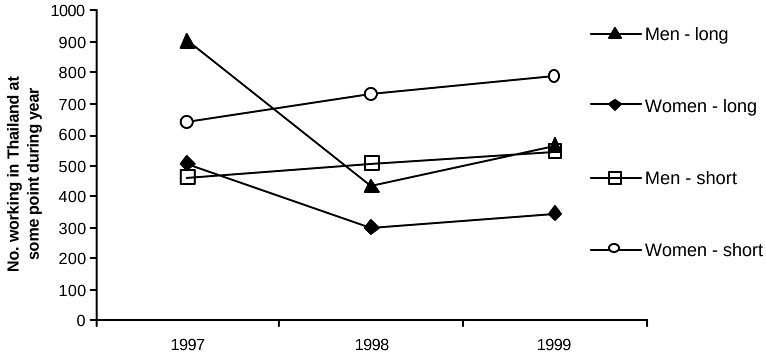
2.5.2.2. Cambodian Migration to Thailand

Interviews were conducted with 163 households having experience of migration to Thailand. Most of them were poor or very poor: 47 percent owned no farmland and 23 percent had less than one hectare. Their reasons for migrating out also were overwhelmingly economic. Local earning opportunities are few: farm-work and further exploitation of already-depleting common property resources are possible only for a few months a year. Table 2.18 shows the average earnings available locally compared with the average earnings received by migrants in Thailand (converted in both cases to US dollars for comparability). The wage rate for jobs in Thailand is much higher than for similar work in Cambodia. The earnings differential between the sexes also is generally quite large – 30 percent on average – though women earn slightly more than men in agricultural work.

Small-scale farming households also face food shortages for 3-6 months of the year, have no capital to invest, encounter unpredictable agricultural prices, and often have outstanding debts at monthly interest rates of between 10-30 percent. In such circumstances the only answer seems to be migration to Thailand, particularly when they observe that their neighbours have gained financially from earlier visits across the border.

Migrants are mostly between the ages of 17 to 35 years. Of the 272 interviewed, 56 percent were male and 44 percent female. There are two groups of migrants – short-range and long-range. Short-range migrants, the majority of whom are women, commute daily or for a few weeks at a time to take up farm work (including planting, weeding and harvesting rice, corn and sugar) just across the border. Long-

Figure 2.8. Short-range and Long-range Migration to Thailand from Sample Villages, 1997 - 1999



Note: No. refers to numbers. Source: CDRI interviews, April – May 2000

range migrants, the majority of whom are men, go deep into Thailand with the assistance of guides; they belong to households with sufficient assets to finance their trip. Long-range migrants are employed as construction workers, porters, farm workers, garment workers and unskilled workers. They are in manufacturing and food processing, the fishing industry off the Thai coast, and in restaurants and shops (Table 2.18 above for pattern of work among those interviewed).

Figure 2.8 shows trends in short- and long-range migration from the 19 villages in the study, as estimated by village chiefs, Village Development Committees and NGO field staff. A big fall in long-range migration can be observed between 1997 and 1998, particularly steep in the case of men. It revived in 1999, especially among men, but was still below the levels of 1997. Short-range migration by both sexes continued to increase, however, and it is likely that some long-range migrants have switched to commuting over shorter distances. The reasons for these changes are discussed further in the section on crises later in this paper.

Migration is risky and can also cause problems for those left behind, but many

Table 2.19. Labour Force Participation Rate – Employed as a Percentage of Population, and Unemployment Rate, by Sex, 1993/4 to 1999

	1993/94	1996	1997	1999
Labour force as a % of working-age population				
Male	58.0	65.7	66.9	68.6
Female	54.8	65.0	63.6	68.1
Total	56.3	65.3	65.1	68.3
Employed as % of total population				
Male	40.3	46.3	46.8	49.7
Female	39.4	47.6	46.0	51.0
Total	39.8	46.9	46.4	50.4
Unemployment rate (unemployed as a % of labour force)				
Male	2.4	0.8	3.8	1.5
Female	2.8	1.3	4.1	1.5
Total	2.6	1.1	4.0	1.5

Source: SESC databases

Table 2.20. Employment Status by Sex, 1996 and 1999

	Male		Female		Both sexes	
	1996	1999	1996	1999	1996	1999
Employee	15.6	19.6	5.4	10.9	10.2	15.1
Employer	0.4	0.2	0.1	0.2	0.2	0.2
Own-account worker	57.5	51.0	32.9	23.5	44.5	36.6
Unpaid family worker	26.4	29.1	61.5	65.3	44.9	48.1
Total	100	100	100	100	100	100

Source: SESC databases

long-range migrants reported positive outcomes from their experience: 11 households bought land, 40 more opened up a small businesses, another 25 renovated or built a house, and a few purchased motorcycles. More important, 57 percent of the households with a long-range migrant member were able to meet short-term food and farming requirements in 1999. Almost all short-range migrants were able to save money. Migration also was judged to be good for the development of skills, such as

Table 2.21. Percentage Distribution of Wage Employees by Type of Employer,

	1997			1999		
	M	F	M+F	M	F	M+F
Government	47	27	41	44	16	32
State enterprise	5	4	5	1	4	2
Joint venture	5	9	7	2	3	3
Private	40	54	44	49	73	59
International organisations	2	1	2	1	2	1
NGO	1	4	2	1	2	2
Total	100	100	100	100	100	100

Source: SESC databases

construction and tailoring.

2.6. Recent Trends in the Labour Market

Analysis of labour market trends is seriously hindered by problems of comparability between successive socio-economic surveys. Each one was carried out for a different purpose, with varying definitions, methodologies, supervisors and international sponsors. Accordingly, this section will be limited to some of the most important changes that can be identified.

As Table 2.19 shows, labour force participation appears to have increased steadily between 1993/94 and 1999 as the transition to a market economy gathered speed. The participation rate rose particularly fast among women. Between these dates the proportion of the population that was working increased considerably, again more among females than among males, signifying a reduction in the economic dependency rate. Unfortunately, the series on unemployment is internally inconsistent because of variations in definition. But the unemployment rate never rose above 4 percent by any definition over the whole period, implying not much change on this front.

One sign of labour market development is the change that may have occurred in employment status. Data are not available for 1993/94, but between 1996 and 1999, as Table 2.20 shows, the proportion in wage employment increased considerably, particularly among women. The changes in own-account and unpaid family workers are difficult to interpret. These categories have fluctuated widely between surveys,

suggesting that enumerators have had problems in distinguishing between them. Surely the labour market is moving towards maturity, but very gradually.

Table 2.22. Composition of Employment (%) by Sector of Primary Employment

	Men		Women		Both sexes	
	1993/4	1999	1993/4	1999	1993/4	1999
Agriculture, hunting, forestry	65.6	70.3	75.3	77.1	70.6	73.9
Fishing	2.0	3.3	1.0	1.0	1.5	2.1
Mining, quarrying	0.2	0.1	0.2	0.1	0.2	0.1
Manufacturing	4.2	3.9	3.2	6.5	3.7	5.3
Electricity, gas, water	0.2	0.2	0.0	0.1	0.1	0.1
Construction	1.6	2.6	0.1	0.3	0.9	1.4
Wholesale, retail trade	6.2	3.9	15.6	10.6	11.1	7.4
Hotels, restaurants	0.2	0.4	0.3	0.4	0.2	0.4
Transport, storage, communic.	6.1	4.3	0.9	0.4	3.4	2.3
Financial services	0.2	0.1	0.1	0.1	0.1	0.1
Real estate etc.	0.4	0.3	0.2	0.1	0.3	0.2
Public admin, defence, etc.	8.2	6.1	0.8	0.6	4.3	3.2
Education	2.4	2.2	1.0	0.9	1.7	1.5
Health, social work	0.6	0.4	0.6	0.5	0.6	0.5
Other services	1.2	0.8	0.6	0.6	0.9	0.7
Private households	0.5	0.7	0.1	0.6	0.3	0.6
International organisations	0.1	0.4	0.0	0.2	0.1	0.3
Total	100	100	100	100	100	100

Source: SESC databases

Table 2.23. Wages by Sex and Schooling, 1996 and 1999

('000 riels per month)	1996	1999	percent change
Male			
No schooling	97	106	9%
Primary or less	97	127	31%
Some secondary	98	147	50%
Some tertiary	143	411	187%
Total	100	152	52%
Female			
No schooling	69	86	25%
Primary or less	103	122	18%
Some secondary	72	150	108%
Some tertiary	92	161	75%
Total	81	122	51%
Male premium			
No schooling	41%	23%	
Primary or less	-6%	4%	
Some secondary	36%	9%	
Some tertiary	55%	148%	
Total	23%	33%	

Source: SESC databases

2.6.1. Employment Status by Sex, 1996 and 1999

Data on the distribution of employees by type of employer are not available for 1996. However, from sectoral data it can be calculated that the proportion of wage employees in sectors other than public administration, defence, education, health and social work (a proxy for the 'private' sector in the absence of a relevant series) increased from 52 percent in 1996 to 66 percent in 1999. Data on the distribution of employees by type of employer in 1997 and 1999, as shown in Table 2.21, are consistent with this. The proportion of wage earners working for private employers rose substantially, particularly in the case of women.

2.6.2. Percentage Distribution of Wage Employees by Type of Employer and by Sex, 1997 and 1999

The sectoral structure of the labour market has changed comparatively little since the early 1990s. According to Table 2.22, the proportion of workers in agriculture actually increased during the decade. A full settlement of ownership rights on land is still occurring after its privatisation in 1989. It is this gradual settlement of the land system rather than a shift of people to agriculture because of rising labour demand, which is perhaps the reason for the observed proportional increase of workers in agriculture. The other sectors to show increases in their share were manufacturing, construction, and, from very low levels, hotels and restaurants, private households and international organisations. The increase in the proportion of women working in manufacturing, reflecting the rise of the garment industry apparently at the expense of their involvement in trade is remarkable. So is the fall in the proportion of men engaged in manufacturing, trade, transport and communications, and public administration, defence and security.

Finally on trends, Table 2.23 shows data on changes in wages since 1996. Average wages of both male and female workers rose by more than 50 percent between 1996 and 1999. Even with price inflation around 29 percent over this period, there has been a substantial real wage increase. Women's wages increased particularly rapidly for those with some secondary schooling, while men's wages rose mostly for those with post-secondary education. Differentials between men and women increased only slightly except for those with no schooling and at higher levels of

Table 2.24. Social Indicators by *Per Capita* Consumption Quintile, June

	Consumption quintile				
	1 – poorest	2	3	4	5 – richest
Household size	5.8	5.4	4.9	4.6	4.2
Children per family	2.8	2.4	1.9	1.7	1.4
Female HOH (%)	20.7	21.7	21	25.6	26.1
Literacy (% of 15+)	56.2	61.9	66.2	70.5	74.4
Yrs of edn, male 15+	3.5	4.1	4.6	5.2	6.2
Yrs of edn, female 15+	2.1	2.4	2.8	3.3	4.1

Note: HOH refers to head of household. Source: SESC databases

education, where they widened considerably.

2.7. Links Between the Labour Market and Poverty Reduction

The standard of living of an individual does not, of course, depend only on outcomes in the labour market. It depends also on the ownership of assets, prices in various markets, taxes and subsidies, and distribution of income/consumption within the household. Nevertheless, the state and structure of the labour market are important influences on poverty and income distribution. Recent socio-economic surveys throw some light on this link in Cambodia.

As Table 2.24 shows, some of the most important influences on a household's ranking in the hierarchy of consumption and income, are family size, number of children and level of education.

The smaller the size of a household and the fewer the number of children in it, the higher is its likely position in the league of (relative) prosperity. Also, the higher the proportion of literate[15] members and the larger the average number of years of schooling (particularly of females), the less poor a household is likely to be. The weakness of the 'household head' concept for poverty-analysis purposes is illustrated by the fact that households with female heads are less likely to be poor. The person identified as household head in a Cambodian context is not necessarily its principal earner, but rather the oldest and most respected member of the household. Tabulation of household heads by age and marital status shows that most women heading households are widows, and most such heads are of grandparents' generation, meaning that these households may have many adults with capacities to earn.

As Table 2.25 shows, it is fairly obvious that households with a higher proportion of members who are working, a higher number of jobs per member, and a higher

Table 2.25. Links Between Labour Market and Poverty Indicators, June

	Sample means		
	Poor below food poverty line	Between food poverty & poverty line	Non-poor
Household members worked			
No. of jobs per household			
Av. monthly wage from			
People under age 15 em-			

Note: occn. refers to occupation. Source: RGC 1999

15 The literacy of household members has a much greater impact on poverty than that of the household head alone. The poverty assessment report's dismissal of the likely contribution of adult literacy campaigns to poverty alleviation (RGC

Table 2.26. Distribution of Poverty by Sector of Employment and Labour Force Status of Household Head, June 1997

		Head count index	
	Frequency	(%)	Contribution to total (%)
Agriculture	59.1	43.5	71.3
Manufacturing/ mining	4.7	28.9	3.8
Construction/ utilities	2.0	37.8	2.1
Trade	6.8	18.7	3.5
Transportation/ communications	3.6	19.9	2.0
Government services	4.7	18.0	2.4
Education/ health	3.0	17.0	1.4
Other services	1.8	26.5	1.3
Employed, industry not stated	2.3	33.6	2.1
Unemployed	0.4	27.0	0.3
Not in labour force	9.7	31.2	8.4
Not reported	1.9	27.1	1.4
Total	100	36.1	100

Source: RGC 1999

average monthly wage, are less likely to be poor. Non-poor households, also as expected, tend to have a lower proportion of working children.

The vast majority of Cambodia's poor, over 70 percent on the head count measure, are in households whose heads work in agriculture. As Table 2.26 shows, the incidence of poverty is also the highest in this sector, followed by that in construction. In spite of low wages in the public sector, households headed by people working in government, education and health services are among the least poor. This is proof of the fact that public sector employees are able to generate extra incomes on the strength of their education and placement.

Table 2.27 shows that the lowest incidence of poverty is in households headed by unpaid family workers, again illustrating the weakness of the 'household head' concept for this purpose. Similarly, households headed by non-participants in the labour force have a below-average poverty score. Families of public sector employ-

Table 2.27. Distribution of Poverty by Employment and Labour Force Status of Household Head, June 1997

		Head count index	
Status category	Frequency	(%)	contribution to total (%)
Self-employed	66.9	40.1	74.3
Employee, public sector	9.7	19.7	5.3
Unpaid family worker	1.4	15.9	0.6
Employee, private sector	5.0	29.1	4.0
Household work[a]	0.9	42.5	1.1
Employed, employer not			
Unemployed	0.4	27.0	0.3
Not in labour force	9.7	31.2	8.4
Not reported	1.9	27.1	1.4
Total	100	36.1	100

Note: [a] This category does not appear in the questionnaire and must reflect 'other' responses. Source: RGC 1999

Table 2.28. Percentage Distribution of Households by Composition of the Poorest and Richest Household Quintiles, by Labour-force Category and

	Household per-capita consumption quintile					
	The poorest quintile			The richest quintile		
	M	F	M+F	M	F	M+F
Employees	3.2	2.1	5.3	10.5	5.5	16.0
Employers	0.0	0.0	0.0	0.0	0.1	0.1
Own-account workers	11.8	5.4	17.2	10.1	8.1	18.2
Unpaid family workers	7.3	17.2	24.4	4.7	10.7	15.4
Other employed	0.0	0.0	0.0	0.1	0.0	0.1
Unemployed	0.5	0.6	1.0	0.7	0.7	1.3
Economically inactive adults	10.8	11.5	22.4	12.6	17.7	30.4
Under working age	15.2	14.3	29.6	9.3	9.1	18.5
Total h/h members	48.9	51.1	100	48.0	52.0	100

Source: SESC database

ees do better than those of private sector employees. The incidence of poverty in households headed by unemployed persons is also well below average. Apart from the mysterious 'household work' category, most poverty and the highest incidence is to be found among households headed by the self-employed, the majority of whom are farmers. The general conclusion from Tables 2.26 and 2.27 is that peasants, in all probability illiterate, engaged in subsistence agriculture, form the largest pool of the poor.

For obtaining a clearer analysis of the relationship between labour market and poverty it is necessary to get away from the concept of 'household head' and to look, rather, at the composition of households. Table 2.28 shows the average composition of the households in the poorest and the richest quintiles, measured by consumption per head. The most striking contrast is in the proportion of household members in wage employment – they are three times greater in the richest than in the poorest households. The richest households rely far less on unpaid family workers and have a smaller number of children as a percentage of total household members. Next, they also have a higher proportion of economically-inactive adults, a luxury that the poorest households cannot afford to the same extent. The percentage of unemployed members is actually slightly higher in the richest households, as might be expected since they can afford to wait for the job of their choice. As for gender, there appears to be no difference between the two quintiles in the proportion of females in the households. The proportion of women who are wage earners and own-account workers is higher in the richest quintile, while that of unpaid family workers is lower – a higher percentage of such women, also, are economically inactive.

These are cross-sectional data that must be interpreted with care, but they are consistent with the suggestion that the way out of poverty is for household members to move out of unpaid family work into wage employment (for both males and

Table 2.29. Wage Employment by Sector, 1999, and Change Since 1996

	Wage employment 1999 ('000)	Wage employment as % of	Percentage change in wage
Agriculture, forestry	161.7	4	134
Fishing	11.3	10	197
Mining	1.9	56	171
Manufacturing	155.0	52	199
Electricity, gas, water	5.2	75	49
Construction	75.4	95	113
Trade, repairs	18.5	4	140
Hotels, restaurants	13.4	56	123
Transport, communications	50.8	40	135
Financial services	2.9	45	-19
Real estate	6.4	65	25
Public administration etc.	179.3	99	13
Other services	166.9	84	28
Total	848.7	15	71

Source: SESC databases

females), and also into self-employment (for women). The data also suggest that unemployment and economic inactivity are luxuries that richer households can better afford rather than they being causes of poverty.

2.8. Links Between the Labour Market and Economic Growth

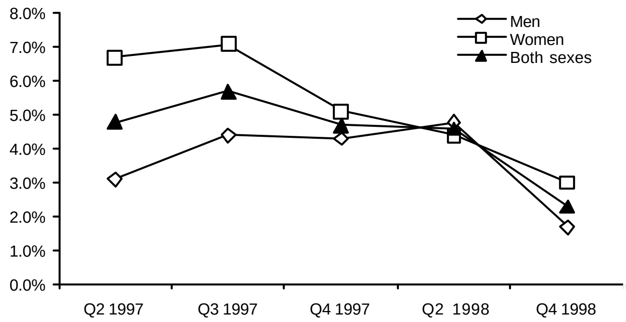
In the absence of timely enterprise survey data, analysis of the connection between growth and labour market must inevitably be speculative. In general, in market economies, growth and development have involved four transformations: a change from subsistence production to production for sale; a change from a predominantly household, family-labour-based to a predominantly capitalist, wage-employing

Table 2.30. Value Added per Worker by Sector in 1999 and Real Change Since 1993

	1999 (US$ at	Real change		1999 (US$ at	Real change
Paddy	143	24	Non-metallic minerals	2367	3
Other crops	423	19	Other manufacturing	1165	-3
Livestock	2365	-10	Electricity, gas, water	6345	30
Fisheries	612	-35	Construction	1726	15
Rubber	847	-12	Transport/communications	2775	-10
Forestry	5208	-13	Trade	1076	-25
Mining	1543	23	Hotels, restaurants, etc.	1813	-8
Food, beverages,					
Textiles and gar-			Public administration	245	38
Wood, paper,			Real estate	2191	-3
Chemicals, plastics			Other services	1644	1

Source: CDRI 2000

Figure 2.9. Unemployment Rate by Sex, Phnom Penh, Q2 1997 - Q4 1998



Source: SESC databases

mode of production; an increase in productivity in all sectors; and a movement of labour from lower productivity to higher productivity activities. The labour market plays an important role in ensuring that these transformations progress as smoothly as possible.

Cambodia is at an extremely early stage in this process. Most of those working in agriculture are still primarily engaged in subsistence farming. Over 90 percent of the harvested land area was estimated to be under rice in 1999, an only slightly lower proportion than nine years earlier (Chan 2000). Wage employment is still a small proportion of the total employment. However, there have been some signs of change in the pattern of employment status. As Tables 2.20 and 2.21 above show, the proportion represented by employees rose from 10 to 15 percent between 1996 and 1999, and the private sector's share of wage employment rose from 44 to 59 percent between 1997 and 1999. Table 2.29 shows the differences between sectors in the importance and dynamism of wage employment. Between 1996 and 1999, the number of wage earners increased the fastest in manufacturing, and they represented more than one-half of the total employment in manufacturing, electricity, gas and water, construction, hotels and restaurants, and real estate. These figures are put into perspective, however, by the fact that while the largest number of wage earners outside the public sector was in agriculture, and they have been increasing fast, they represented only 4 percent of the sector's work force in 1999.

Table 2.30 shows that the picture of labour productivity has by no means been static.[16] The transition towards competitiveness in manufacturing has involved some reduction in productivity, but, within agriculture, value added per worker has increased in paddy and other crops during the 1990s, as it has in mining, utilities

16 Derived from CDRI's macro-economic database, which includes a lot of

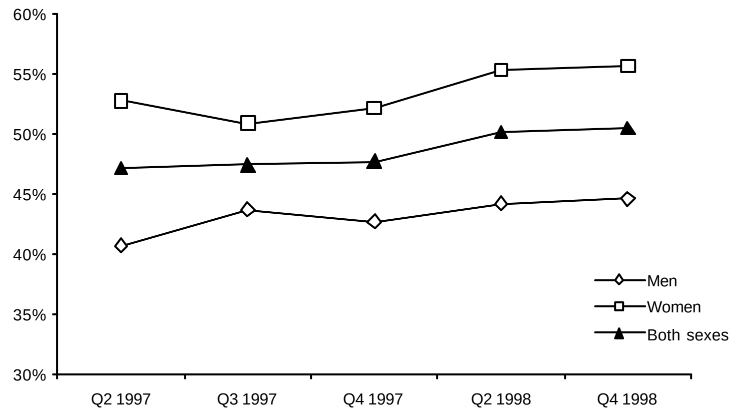
and construction. In view of relative productivities, growth would obviously be served by a move of workers out of paddy into other agricultural and fisheries production, and out of agriculture into non-agriculture (including processing of agricultural products). The figures given for real changes in value added for manufacturing, though, are a bit intriguing and this aspect requires further investigation.

There is no doubt about the potential for labour mobility in the country. Workers are already responding to productivity and earnings differences between sectors and locations by moving on an increasing scale, as were shown in Section 4 above. Such movements may be temporary/seasonal or permanent, and within Cambodia or across a border. In the interests of economic growth, the operation of the labour market could be facilitated by integrating the national economy through improvements in roads and transport infrastructure. This would increase productivity within existing activities, encourage a switch from subsistence to cash crop production, and enable those who wanted to move to find rewarding opportunities within Cambodia rather than having to cross borders illegally. In addition, government should take steps to encourage rather than discourage such movements and to ensure that information on employment opportunities is available throughout the country.

2.9. The Labour Market and Adjustment to Crises

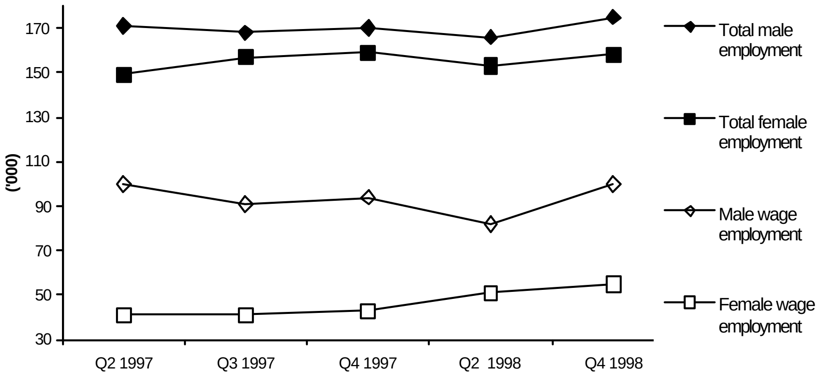
Cambodia has been hit by several crises in recent years. The Asian financial crisis, which erupted in Thailand in mid-1997 and spilled over to other Asian countries, has had a negative impact on Cambodian exports, companies competing with imports, investment from other Asian countries, and the tourism industry. Its effects were compounded by an internal crisis – fighting in Phnom Penh in early July 1997,

Figure 2.10. Inactivity Rate by Sex, Phnom Penh, Q2 1997 to Q4 1998



Source: SESC databases

Figure 2.11. Total and Wage Employment by Sex, Phnom Penh, Q2 1997 - Q4 1998



Source: SESC databases

precipitated by the conflict between the two main political parties. Confidence in political stability was lost, the security of people and enterprises was threatened, and the future political environment became uncertain. The international community responded to the July fighting by terminating or suspending its assistance to Cambodia. The adverse impact on the economy was immediate. In addition to the looting and destruction of many factories and shops around the capital, the riel depreciated against the US dollar, inflation soared, consumption and investment contracted, tourist arrivals plummeted, and the inflow of foreign aid was disrupted. The government responded to both crises by introducing austerity measures in public expenditures in August 1997, as public revenue was hit by the fall in aid and customs revenues. As a consequence, the rate of growth of real GDP, which had exceeded 7 percent on average since the beginning of the decade, fell to 1 percent in 1997 and 1998 before reviving in 1999.[17] The most recent crisis – the extensive flooding in September/October 2000 – is natural rather than man-made, but can be expected to have another adverse impact on the economy and labour market.

Two main sources of information are available to analyse the interaction between the crises and labour market: the Labour Force Surveys carried out by the NIS in Phnom Penh in the second, third and fourth quarters of 1997 and the second and fourth quarters of 1998, and the regular surveys of vulnerable workers carried out at more or less quarterly intervals by CDRI since May 1998.

Relevant data from the Labour Force Surveys are shown in Figures 2.9 and 2.10. Unemployment did not turn out to be a particularly sensitive indicator to the crises. There was a slight increase though in the unemployment rate in Phnom Penh

17 For further analysis of the impact of these crises see Chapter One of Development

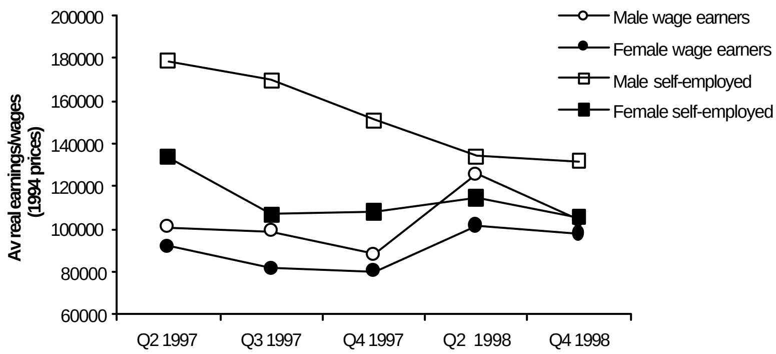
in the third quarter of 1997, the first post-crisis quarter, affecting men more than women, as can be seen in Figure 2.9. Rates continued to converge in the next few quarters and in April/May 1998 the rate was temporarily higher for men than for women. The unemployment rate for both sexes then fell to an unusually low level in the final quarter of 1998.

However, as seen from Figure 2.10, the crisis appears to have had an impact on the inactivity rate (numbers outside the labour force as a proportion of the working population). From 47 percent in the quarter before the crisis, it began to rise in late 1997, and by the fourth quarter of 1998 was 51 percent. The timing of the increase in inactivity differed between the sexes, but both men and women had withdrawn from the labour force in large numbers by the end of 1998.

Total employment did not seem to be affected by the crisis. As Figure 2.11 shows, it continued to rise during 1997, fell in early 1998 to only slightly below its pre-crisis level, then rose again towards the end of the year. The pattern was similar for both sexes. Wage employment was more sensitive, registering an immediate fall in the third quarter of 1997, and showing no real recovery until the fourth quarter of 1998. Men suffered more than women from this slump in wage jobs.

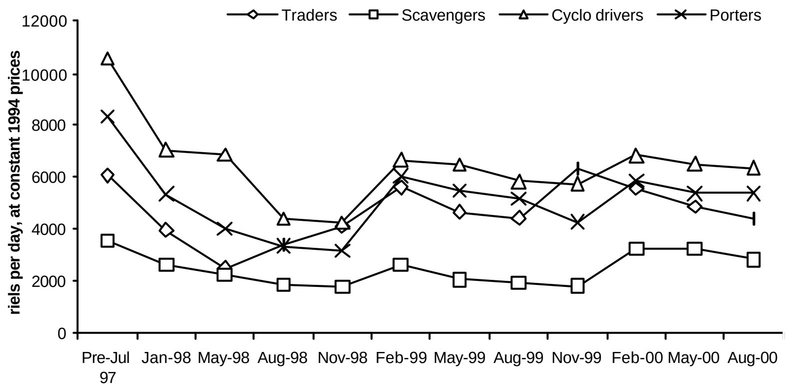
The trend in real wages and earnings appears to be the most sensitive indicator. As Figure 2.12 shows, average real wages fell immediately in the third quarter of 1997 and again in the final quarter of the year, though they recovered strongly in 1998. Women felt the immediate impact more than men, but shared fully in the recovery – the differential between the sexes narrowed over the whole period. Earnings of the self-employed plunged throughout the post-crisis period – again women felt the early impact more strongly, but recovered more completely than men. At some stage a higher volatility in the status of female workers is observed.

Figure 2.12. Average Real Monthly Wages and Earnings, by Sex and Employment Status, Phnom Penh, Q2 1997 - Q4 1998



Source: SESC databases

Figure 13. Average Real Daily Earnings of Vulnerable Workers, pre-July 1997 - August 2000



Source: SESC databases

CDRI has been conducting surveys of vulnerable workers since May 1998. Four groups were selected: petty traders, scavengers, cyclo drivers and porters. Thirty workers in each group were sampled, and asked at regular intervals, about their net daily earnings, working hours and days, and the problems encountered in their day-to-day activities. In the May 1998 survey, retrospective questions were also asked about earnings before July 1997 and in January 1998, to assess the impact of the twin crises. As can be seen from Figure 2.13, and in line with the Labour Force Survey series already discussed, the crises had an immediate and severe impact on the earnings of these workers.

Petty traders (all women) suffered the steepest fall in earnings. By May 1998 the earnings were already down to around 40 percent of pre-July 1997 levels, but bounced back more quickly than the others to briefly exceed their pre-crisis level by November 1999. Thereafter, a small fall is again observed. Cyclo drivers and porters (all men) also saw their real earnings being cut severely, reaching their lowest point in November 1998. Since then they have increased somewhat, but have never regained their pre-crisis level. Scavengers (both women and men), who earn much less than the other groups, had less far to fall. By the beginning of 2000 their real earnings were less than ten percent below pre-crisis levels, and the differential between them and the others in Figure 2.13 had narrowed considerably. Figure 2.13 also illustrates that, like in any labour market, there is a lower ceiling to earnings; perhaps the lowest is that below which subsistence may not be possible.

Apart from strong seasonal factors, shocks on the demand or supply side of the labour market are the main influence on changes in the real earnings of these

workers. On the demand side, the sudden fall in consumption and investment was quickly transmitted to this part of the labour market. Cuts in foreign assistance (and hence in resident expatriates), and in the number of tourists had a direct impact on the earnings of cyclo drivers. On the supply side, the slump was reflected in an increase in the number of people competing for work of this kind. Most of them come from rural areas, some (particularly cyclo drivers), temporarily to supplement their earnings from agriculture. When agricultural conditions deteriorate, as they did during these crises, more people move to the city.

The surveys of migrant workers, discussed in an earlier section, also throw some light on the impact of crises. Interviews with Vietnamese working in Cambodia revealed a significant decline in most of their earnings after July 1997. The decline in long-range Cambodian migration to Thailand in 1998 is also related to that country's economic crisis. By May 1998 the Thai government had repatriated nearly 180,000 illegal migrant workers from various countries (Thongpakde and Paitoonpong 1999), and the returning migrants, particularly those in the construction industry, reported increasing difficulty in finding work. Cheating by employers on wage payments has always been said to be a problem. Working hours are also reported to have increased since 1997.

It is too early to assess the labour-market impact of the latest crisis – the floods of September/October 2000, which have affected an estimated 2.7 million, killed more than 250 people and caused around US$79 million worth of damage. Announcing these figures in a broadcast in October 2000, the Prime Minister said that 544,000 hectares of paddy, 700 km of national roads and 1,500 km of rural roads had been destroyed or damaged. The growth rate is expected to be reduced at least one percentage point as a result of the floods. At the time of writing, CDRI researchers were carrying out their regular survey of vulnerable workers (enlarged since February 2000 to include also waitresses, rice field workers, garment workers, motorcycle-taxi drivers and skilled and unskilled construction workers), and report significant falls in earnings for all categories of workers.

2.10. Policy Response and the Labour Market

From 1970 to 1975 Cambodia experienced a brief stage of capitalism under the Lon Nol regime. Subsequently, the economic system transformed to state/party collectivism under the Khmer Rouge regime between 1975 and 1978, followed by a state-commanded economy between 1979 and 1993, and then to a liberal market regime from 1993 onwards. This took firmer roots after the peace and elections of 1998.

Unlike other countries in the region during their war years, Cambodia suffered a total devastation of its social and political institutions during the Khmer Rouge era.

The nation did not have a real and uninterrupted opportunity to rebuild for the next 18 years, until 1998, since foreign occupation, and then subdued internal strife and armed resistance, continued to plague it. Policy response in the Cambodian context, therefore, takes the shape of a much broader development agenda. Unlike other countries of the region that suffered from the larger financial crisis and/or their internal economic problems during the late 1990s and needed, perhaps still need, corrections in their public policy, Cambodia requires much more than just corrections. It needs to re-establish its social and economic institutions, in addition to following a sound development strategy.

The reconstruction, adjustment and stabilisation agendas developed so far are vast and fairly encompassing. The government has implemented many regulatory mechanisms, as well as put in place social safety nets in addition to following active labour-force and poverty-reduction policies. Some policy responses are listed below, which address long-term as well as immediate problems. Emphasis is placed on aspects that attend to poverty and unemployment.

2.10.1. Investment Law

Cambodia initially implemented some of the most liberal investment policies in the region with the objective of attracting foreign investments that would generate wage employment in addition to sustaining a tax-based revenue system. In December 1997, the Council of Ministers adopted a Sub-decree to eliminate unnecessary tax exemptions. The new regulations grant tax concessions only if investment projects meet some strict conditions. Some criteria for extending tax exemptions are location of the project to encourage investment in remote areas, size of the project (bigger investments are encouraged), employment created (with specific reference to women and disabled people), exports potential, value-added, use of local resources, and training of local workers. The tax scheme primarily aims at the garment industry, to attract more investors to create employment opportunities.[18]

In 1995 the government signed an *Investment Incentive Agreement* with the United States, and also entered into various multilateral trade agreements with many countries in the region, through ASEAN and the ASEAN Free Trade Area (AFTA).

Membership in AFTA, however, does not ensure that the system will secure long-term employment or gradual wage increases, it merely requires trade harmonisation. Therefore, for each member to maximise its interest within the given rules, and consequentially derive maximum utility from the system, the authorities should prioritise their interests. Cambodia's membership will require it to deregulate movement of goods internationally. The country's industry may not be very competitive

18 Details can be seen in Council for the Development of Cambodia (1997).

if it follows all the labour protection rules, without increasing the productivity levels. It is, therefore, a major challenge to raise productivity and value addition. It is believed here that the investment law should be more directed, so that more industries of a long-term nature, and having strong forward and backward linkages, are attracted to the country. At the same time productivity-enhancing approaches should be embraced.

2.10.2. Fiscal Discipline

Value Added Tax (VAT) came into force on 1 January 1999, with a rate of 10 percent, replacing turnover taxes that were previously levied. The VAT tax scheme was adopted in response to two critical needs: 1) to increase revenues to supplement monies that began to decrease due to a foreign direct investment slow-down, and 2) to help stabilise political uncertainties of July 1997. Commercial banks, medical clinics, postal services, non-profit activities and insurance services though, are exempted from VAT. There is yet no proposal to take serious action for levy of direct taxes. Targeting prospective payers and strengthening collection mechanisms for direct taxes are therefore important priorities. The government also needs to raise revenues from origins other than the usual tax sources so that its collections can rise by 1-2 percent more than the GNP growth rate each year.

Collection and enforcement are two weaknesses of Cambodia's fiscal discipline. In consequence, social security, public saving and other expenditures are affected, which may undermine real domestic wages. Poor enforcement discipline affects the labour market through diminished public spending on social safety nets and human resource development.

On the promotion side, the state needs to concentrate its attention to promote programmes related to credit. Not only do banks need to extend more credit to business, the rural and agricultural sector also calls for attention. In this regard, microcredit schemes operated by NGOs can be replicated on a large scale by the banks and government, not as charity but as business propositions.

2.10.3. Land Reform

Since the privatisation of agricultural and other land in 1989, the state administration has not been fully able to grapple with land titling, distribution of land, or administering its transactions. In the absence of firm ownership rights and security, farmers hesitate to invest in land; hence, the productivity stays low and farmers remain poor. The government's new land policy aims to strengthen land administration and management, ensure transparency in transactions and security of tenure, and decen-

19 See for details, RGC 2000c.

tralise decision-making. To logically follow up on these, the government has undertaken the tasks of land registration, cadastral mapping, and GIS land evaluation as the first steps.[19] Steps to strengthen agricultural extension also have been taken up. It is believed that with firmer land rights and better diffusion of technologies, people will be encouraged to invest in land and obtain better yields.

Essentially, the government has proposed strategies based on a bottom-up pyramid that would enable mass participation in effecting land reforms. An important mechanism for this is the creation of Village Development Committees (VDCs), which will work in coordination with non-governmental and international agencies.

2.10.4. Governance

Good governance is essential. In the absence of a rule of law, the economic advantages that a country may possess may be seriously undermined, foreign investment scared away and workers demoralised. Proper functioning of the labour market and poverty alleviation also rest on policy discipline and consistency. A functional legal system and administrative reform, in combination with mass participation mechanisms in place, thus become prerequisites for pro-poor policies to be effective.

Cambodia's good governance package in the context of promoting economic growth and employment includes the following:

1) Judicial reform;

2) Public finance reform; and

3) Administrative reform, which includes anti-corruption, and decentralisation.

On each of these there have been definitive steps taken by the government; in fact, there is comprehensive legislation being passed to effect better governance, and the government has negotiated loans from multilateral funding agencies to implement its plans.

2.10.5. Labour Code/Law

2.10.5.1. The Basic Law

The Labour Code/Law intends to protect workers' rights, provide human dignity to all legitimate work, and eliminate exploitation such as forced labour and discrimination, as well as provide protection for employers from unwarranted litigation. Equal opportunities, safety and human dignity for labour thus form the essence of this policy.

The Labour Code has provisions against forced labour. To support these, the National Assembly has enacted an anti-forced-labour policy. The law has provisions to cover all workers. However, in reality it may be difficult or impossible to

follow the rules, because extreme poverty compels people to render their services regardless of conditions of the work contract.

Again, the rule of enforcement is weak, which complicates the institutionalisation and implementation of laws and rules. Also, absence of a labour court exacerbates labour disputes between union workers and the management.

2.10.5.2. Child Labour

Cambodia is just coming to terms with its child labour problem, and is in the process of gradually developing a coherent policy. The Cambodian National Council for Children was established in November 1995 by a sub-decree. The Council serves as the coordinating body for advocacy, planning, monitoring and implementing the provisions in the Convention on the Rights of the Child. It is presided over by the Prime Minister. In January 1997, the National Assembly enacted a new Labour Code, setting the minimum age admissible for employment at 15 years. It also stipulates that children aged 12 to 15 years can be engaged in light work, provided; 1) the work does not affect their health and psychological development, and 2) the work will not affect their school attendance or participation in vocational training programmes approved by the competent authorities.

2.10.5.3. Freedom of Association, Collective Bargaining and Remuneration

Cambodian people enjoy the freedom to associate; in fact, there are functional trade unions in the country. But poor conception of the policy and lack of implementation mechanisms do not permit the benefits of these provisions to reach most of the people. The system has not been able to extend protection to the labour force in all locales and sectors. For example, the rural population is scarcely touched by this provision. Also, workers' representation at the decentralised level is completely missing.

The government has not yet consolidated its decision on the minimum wage issue. The labour law code stresses the importance of "decent living standard compatible with human dignity," yet an average garment worker earns only about US $0.13 US dollars per hour and works for 48 hours per week. The minimum wage prescribed is US$40 per month. The Ministry of Labour and Social Welfare has proposed a revised wage policy, but the National Assembly has not passed the new minimum wage formula because the managements and labour unions have so far failed to reach a wage agreement. The wage issue is still under discussion. While occupational safety is a real problem, there is little by way of public policy that exists on this subject in the country.

2.10.6. Social Development Programmes

2.10.6.1. Income Transfers

The government's safety nets are limited in scope and impact. The Ministry of Social Affairs, Vocational Training and Youth Rehabilitation, is in charge of disbursement for the disadvantaged groups. Resources provided to the poor are via income transfers, for example, through the Red Cross, other donors and NGOs. Together with UN agencies like the World Food Programme, the Ministry of Rural Development has initiated food-for-work and other income and employment generating projects. The food-for-work programme helps to rehabilitate infrastructure, provide social support, extend skills training, and aid vulnerable groups including street children, orphans and persons with disabilities. However, to a great extent, people devise their own coping strategies; the majority are not a beneficiaries of these transfers.

2.10.6.2. Human Resource Development

The government has come up with several education policy responses that amplify equal access to education by the poor. Some steps proposed in the policy are:

1) Focus on public funding for education, and emphasis on promoting, motivating and providing incentives to attract the best staff to the teaching profession;

2) Increase the number of classrooms and equipment to extend access to grades one to nine to all school-age children;

3) Narrow rural/urban and gender gaps at both primary and lower-secondary levels;

4) Encourage private sector involvement in upper secondary and tertiary education; and

5) Decentralise education.[20]

2.10.6.3. Gender and Development

Although the social safety-net policies mentioned above reiterated the importance of equity, access, protection and legality, women's position in the labour force remains vulnerable. This is rooted in circumstances, traditions, lack of access to education, low proportions in wage employment, unequal remuneration and unfairness in job opportunity. Yet, they are in large numbers in the labour market, though not necessarily in wage employment. The government needs to take actions to ensure

20 See the latest policy of the government on education, RGC, 2000d.

Table 2.31. Dimensions of Missing Opportunities: Government Policy Responses

1. Low average income	Macroeconomic stability, economic growth
2. Low level or inadequate farming technology	Improving physical infrastructure including irrigation and rural roads, and land management
3. Extensive poverty in rural areas	Promoting private sector development, income transfers
4. Landlessness and lack of access to land	Land reforms
5. Poor access to assets and skills training	Human resource development
6. Low capabilities	Strengthen capabilities
7. Bad water, sanitation and high cost of health care	Increases in public spending on health and education/social

Source: RGC 2000

protection of women employed in the industrial sector. About six out of ten garment workers come from rural areas and roughly 90 percent are young women. Both hotel and garment industries have similar labour problems. Wages are very low, and are not enough to pay for living expenses in a city, therefore, workers have to be engaged for 12 to 15 hours/day. They rent cheap rooms and live in unsanitary conditions. In the work place, labour violations include the lack of security of tenure (no employment contracts), non-payment of the minimum wage, occupational safety hazards, sexual harassment, and insecurity, especially for women in night work. All of these problems need to be addressed, both through labour market functioning and legislation.

2.10.7. Interim Poverty Reduction Strategy Paper

The Interim Poverty Reduction Strategy Paper (I-PRSP) is the government's stabiliser package and the most ambitious plan, embedding a multi-layer policy response to poverty reduction in the country. According to the I-PRSP, lack of opportunities and social exclusion are widely prevalent. Among the prime instruments proposed for reducing poverty are, promotion of greater employment via macroeconomic stability, private sector encouragement, and agricultural/rural development. More specifically, some of the measures are listed on Table 2.31.

The policy matrix and the cross-cutting policies are complicated and ambitious; the reason lies in their being comprehensive. One common feature is that at no stage has the policy lost perception of labour issues. For example, the government reoriented its economic policy towards other industries to absorb surplus labour when it found that non-performing investments in the agro-industry were not permitting this industry to grow adequately. Its approach to concentrate on labour-intensive manufacturing for export, such as garment and textiles, is another example of this labour-oriented strategy. In other words, poverty reduction is closely linked to industrialisation, which in turn is encouraged to be labour-intensive.

2.11. Conclusions and Recommendations

A full comparison with neighbouring countries in the DAN project is yet to be made, but it appears that Cambodia is not a classic labour-surplus economy: it has one of the lowest labour/cultivable land ratios in ASEAN. It also has the lowest average number of years of schooling per square kilometre of cultivable land, suggesting a current comparative advantage in natural resource-based production, involving relatively unskilled labour, rather than in non-agricultural labour-intensive activities.

This draws attention to the fragility of the garment manufacturing sector, the growth of which has been based not so much on Cambodia's comparative advantage, as on its special access to administered world markets, especially in the US. Should that access be denied or reduced, and/or substantially-extended to competitors (e.g. to Vietnam after the conclusion of the trade agreement with the US), garment producers may seek to relocate elsewhere.

The low average level of education of the Cambodian labour force and the very high level of functional illiteracy (particularly among women) poses huge problems for productive employment generation. The issues of poor quality of schooling and premature dropout, particularly by girls, need to be addressed. An emergency literacy campaign also needs to be mounted, aimed particularly at the 475,000 males and 732,000 females between the ages of 15 and 29 who are, according to the latest survey, functionally illiterate.

This also needs to be borne in mind in approaches to industrial relations. At least potentially, Cambodia is not a cheap-labour economy but, until that potential is realised through institutional and infrastructure reform, vulnerable workers make themselves available at relatively low wages. Their best (and most realistic) protection is the development of democratic and independent trade unions, rather than pressure on labour standards from foreign governments, trade unions, consumer groups and non-government organisations, which sometimes takes the form of closing markets to Cambodian products.

Unemployment is a mis-specification of Cambodia's labour market problem – the overall rate is low and the highest rates are found among the more-educated young in urban areas. Labour market policy should focus, rather, on the problems of the working poor.

The early stage of development of the labour market is indicated by the fact that the largest single category of employment status is unpaid family workers, among whom women are over-represented, and the smallest (apart from the tiny category of employers) is wage-earners, among whom men are over-represented; by the high proportion of workers (especially men) who have more than one job; and by the overwhelming importance of agriculture as a sector of employment for both

sexes. However, there are some promising signs. The proportion of the labour force in wage employment, though still low, has increased considerably in recent years, and the proportion in private-sector wage employment has increased even faster. Although agriculture's domination has not changed, the proportion of workers in manufacturing has increased, mainly due to a big increase in the number of women employees in the garment industry. Real wages have been increasing, and differentials between men and women have widened only slightly.

The incidence of child labour, particularly below the age of 14, is relatively low. Almost all of those children who are working are engaged in unpaid family labour on the farm. Nevertheless, there is a clear conflict with schooling, because of the long hours required over many weeks of the year. This is likely to contribute to school dropout, particularly by girls.

To judge from figures for wages and for earnings of the self-employed, the Cambodian labour market does not look to be significantly segmented, except in the case of women, who tend to earn less than men of the same age and education in the same location, sector and occupation. So, as well as efforts to rectify the imbalance in the education system, which is the most important cause of women's problems in the labour market, vigorous implementation of anti-discrimination legislation may be needed.

The huge presence of external, multilateral and bilateral assistance agencies, and non-government organisations, which employ, directly or indirectly, a high proportion of the most-educated and skilled Cambodians, distorts the labour market and economy in obvious ways. As this sector gets smaller, the distortion will gradually be reduced; meanwhile, donors, executing agencies and government need to look at immediate ways of minimising it.

Another source of distortion is the large size and low level of remuneration of the civil service and the defence and security forces. Reform of both is a prerequisite to the achievement of a properly-functioning labour market. The extent to which reform of the civil administration would involve downsizing is not clear, but the size of the public service should be in relation to tax revenue such that each of its members can be paid a living wage. Demobilisation of the military and police is definitely needed and is already under way. Such cuts may be less problematic than they look in view of the number of force members who (like the civil servants) already have a second job, family farm, or business to fall back on.

There is evidence, from a comparison of the 1996 Demographic Survey and the 1998 Population Census, of a high degree of labour mobility. The rate of rural out-migration, whether it is to urban areas or to other rural areas, is increasing. Migration is over increasingly-long distances, and the proportion of 'newcomers' has been increasing in most places, particularly in urban areas. The search for employment is

the main reason given for migration, in which people below the age of 30 are disproportionately represented. The majority of very recent migrants are men, except in the case of movement to Phnom Penh, where many new garment and shoe factories have opened in the past few years.

Cambodia is in an intermediate position in the regional labour market, receiving migrant workers from Vietnam, as well as sending their own to Thailand. Rapid surveys suggest that workers of Vietnamese origin in Cambodia are mainly skilled workers engaged in construction, machinery and electronics repair, wood processing, etc. or involved in fishing. Their earnings are higher than they could obtain in Vietnam, even though they are subject to many levies, formal and informal. While a more-orderly immigration process would be helpful, both economically and politically, such workers in industry play an important role in passing on skills to younger workers, and the policy should concentrate on encouraging this. In fishing there is a general need to clean up procedures and fishing methods, regardless of the national origin of the workers.

Cambodians who migrate to Thailand are generally from poor households and have a similar economic motivation. Wage rates in Thailand are on average more than four times what they could expect to get at home. Short-range migrants, the majority of whom are women, commute daily, or for a few weeks at a time, to work on farms just across the border. Long-range migrants, the majority of whom are men, go deep into Thailand to work, mainly as construction workers and porters. Many migrants report positive outcomes from their experience, in terms of acquiring assets, savings and skills, but such migration is a sign of the lack of integration of the Cambodian labour market due in particular to the poor state of roads and transport infrastructure.

The connection between labour market and poverty reduction is best illustrated by a comparison of the composition of the poorest and richest household quintiles in 1999. Significantly, there is no difference between the two quintiles in the proportion of females in the households. In general, the data are consistent with the suggestion that the way out of poverty is for household members to move out of unpaid family work into wage employment (for both males and females), and also into self-employment (for women), and that unemployment and economic inactivity are luxuries that richer households can better afford rather than causes of poverty.

As for growth, the labour market is beginning to contribute to it through increase in wage employment, particularly in the private sector. The recent record of productivity increase is mixed, and a movement of workers (voluntary, not due to force or a family crisis) from lower productivity to higher productivity sectors would serve growth better. The evidence of increased labour mobility is encouraging

from this point of view. Integration of the national labour market would help this process, as would a wider spread of accurate labour market information.

In monitoring the impact of recent crises, the most sensitive indicators seem to be changes in wage employment and in real wages and real earnings of the self-employed. These show the combined impact of the July 1997 fighting and the Asian financial crisis to have been severe in Phnom Penh, and worse for the self-employed than for wage earners. Long-range migration to Thailand also fell in 1998 and has not fully recovered.

In response to crises, such as the flooding in September/October 2000, and in support of restructuring, such as the planned demobilisation, more emphasis could usefully be placed on public works and guaranteed employment schemes. Such schemes create employment directly during the construction process, indirectly through linkages to supplying industries, through the multiplier when workers spend their earnings, and dynamically when the assets that have been built (schools, roads, health centres, etc.) help to raise productivity in the area, and when the increase in demand raises the incentive to invest. A well-designed guaranteed employment scheme has a counter-cyclical and self-liquidating safety-net role. This means that decisions on wage rates in the scheme should be decentralised and should be low in relation to local market rates for the type of labour concerned. If programme wage rates exceed market wage rates, the numbers wanting to work on public works programmes would exceed the numbers that can be hired. This means that employment may have to be 'rationed' by local managers, increasing the temptation of corruption, and making it more likely that those who work on the project will not consist only of those in the most desperate circumstances.

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Chapter Three

The Labour Market in the Lao People's Democratic Republic

The National Statistical Centre and the National Economic Research Institute*

3.1. Introduction

Since the New Economic Mechanism (NEM) was implemented in 1986, which shifted the economy from a centrally-planned one to one which is market-oriented, the economy of the Lao People's Democratic Republic (Lao PDR) has expanded remarkably. Since 1990, the Lao economy has grown over 6 percent per year on average. As well, the labour market in the Lao PDR has expanded, notably through an increase in demand for labour in the private sector. This has resulted in an increase in employment opportunities, and hence, income-earning possibilities for the Lao people. In fact, the private sector has employed a relatively large number of workers, in both the formal and informal sectors. The relatively high growth rate in the economy has also led to a gradual reduction in poverty among the Lao people.

A number of analyses on the labour market in the Lao PDR have been made. These include the *Report of the 1994 Urban Labour Force Survey* (DOL-MOLSW 1994), and *Strengthening the Labour Market Monitoring and Analysis in Lao PDR* (Poot, 1995). However, none has discussed linkage between the labour market, economic growth and poverty reduction. In addition, since the Asian crisis erupted in

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* This research project was undertaken jointly by the National Statistical Centre and the National Economic Research Institute, under the supervision of the State

1997, there has not been an analysis of the consequences of the crisis on the labour market, or on the effects of national policies and their adjustments concerning the labour market.

Therefore, in cooperation with member countries of the Development Analysis Network (DAN), which includes Cambodia, the Lao PDR, Thailand and Vietnam, we have decided to conduct research on the labour market. This research project on the Lao PDR was jointly undertaken by the National Economic Research Institute (NERI) and the National Statistical Centre (NSC), under the direction of the State Planning Committee. The purpose of this research project is to analyse the direct and indirect links between the labour market, economic growth and poverty reduction.

Issues related to the Lao labour market still remain debatable. The lack of data, clear definitions and classifications of the labour force, as well as lack of a monitoring system make the research task difficult. The term “labour force” has never been defined for the purpose of studying the Lao situation. As well, the meaning of some terms and concepts used in economics may vary across countries. For instance, some countries may set a “minimum working age” at 13, while others may require a person to be at least aged 15 to be eligible for employment.

Some terms and concepts may have slightly different meanings across countries because of differences in the state of development or cultural differences. For instance, should retired individuals be included in the labour force? In more-developed countries, a large proportion of individuals at retirement age may remain in the labour market and are still productive, because there are many jobs which require mental ability rather than physical strength. The legal retirement age in different countries also varies, depending on life expectancy and other factors. Should priests and monks be included in the labour force? Priests in some countries have a regular salary. In Lao PDR, though priests and monks do not have a regular salary, some temples are making more money than many business firms. For analytical purposes, a temple may be treated as a company producing spiritual goods, and many people are happy to pay for the services of the temple. For the reasons just mentioned, the definition of labour force varies from one country to another.

This report is divided into three main parts. Following this Introduction (Section 3.1), Section 3.2 concentrates on the labour market, economic growth and poverty reduction. Here, factor endowments, structure of the labour market, recent trends in the labour market, and the links between the labour market, economic growth and poverty reduction are analysed. Section 3.3 analyses the adjustments of the labour market to the Asian financial crisis, and discusses the nature and causes of the crisis, along with the consequences for the labour market. Section 3.4 reviews the policy measures of the government of Lao PDR. Here, policy measures and

their effects regarding the link between the labour market and poverty reduction, as well as the adjustments of the labour market to the Asian crisis will be evaluated. Finally, based upon the above analyses, conclusions (Section 3.5) will be drawn.

3.1.1. Methodology

3.1.1.1. Survey and Data Collection

Beginning in early 2000, the National Economic Research Institute (NERI) and the National Statistical Centre (NSC) have jointly conducted surveys and collected data from various concerned agencies and government departments. In addition to these data sources, NERI conducted rapid surveys in all 16 provinces of the Lao PDR, plus Vientiane Municipality and Xaysomboun Special Region. The surveys used a rapid appraisal approach with quantitative and qualitative questionnaires as the main component. The interviews were conducted at provincial cabinets, and the research team also discussed the issues with the governor or deputy governor of each province. Also, NERI carried out interviews with all line ministries concerned at the central government level, including the Ministry of Education, Ministry of Labour and Social Welfare, Ministry of Industry and Handicrafts, etc. In addition, some of the information used in this analysis was derived from observations at social events and activities.

A sample survey on migration was conducted by NSC in March 2000. The main purpose of the survey was to investigate the pattern of job-seeking migration in and among neighbouring countries. In addition, the survey was conducted in order to find the answers to questions concerning the impact of the Asian crisis on the domestic labour market. For instance, what was the trend of labour demand and supply? How many workers were laid-off during the crisis period, and why? What kind of social welfare was provided to these workers, if any? Was there any plan for job creation and skill development?

The sample survey was conducted with 768 households in 64 villages (42 in rural areas, 22 in urban areas, of which 17 villages were along the border area). In addition, 132 employees in 43 companies were surveyed in the following seven provinces: Oudomxay, Xayaboury, Luangprabang, Xiengkhuang, Khammuane, Savannakhet and Champasack, plus Vientiane Municipality. Although this sample size was relatively small, the survey is considered a useful case study.

3.1.1.2. Data Processing and Analyses

Quantitative data and information concerning the labour market have also been analysed and illustrated in a tabular and graphic form to show the trends and correlation of the issues concerned. Existing regulations and policies concerning the labour market and other related issues have been evaluated and analysed in accordance with

their impact on actual implementation of regulations and policies.

3.1.1.3. Report Drafting

This report was jointly written by NERI and NSC. The report pays special attention to the link between the labour market, economic growth, poverty reduction and the impacts of the Asian crisis on the Lao labour market.

3.1.2. Theoretical Framework, Concepts and Definitions

To facilitate the analysis of the labour market in the Lao PDR, we need to clarify some basic and important theoretical concepts.

The labour market is, in principle, similar to any other market: an arrangement in which individuals sell their services to employers who buy those services. It is assumed that the labour supply is directly related to the real wage in that as the real wage increases, the amount of the labour supply also increases. It is also assumed that labour demand is inversely related to the real wage in that as the real wage increases, the employers' demand for labour decreases. Thus, labour demand and supply in a particular labour market determine the real wage for such a market.

The **economically-active population** are those who supply their labour for the production of goods and services.

The **labour force** is defined as a segment of the population consisting of those in the working age population, who were either working (the employed) or actively looking for work (the unemployed).[1] This is a common definition of labour force, which appears in standard labour economics.

Those who are not working and are not seeking work are classified as not currently active and are not included in the labour force. This category includes those who are attending school, performing housekeeping duties without pay, and retired.

1 This definition is loosely defined because a serious effort to scrutinise the overall labour issue has never been made in the Lao PDR. It would be constructive to define key terms and concepts for the Lao PDR's context more precisely. It is hoped that this research project will stimulate more research and discussions on the subject of labour. Our definition of the labour force is a bit different from the definition used in major economies such as the United States and Canada. In these economies, labour force is defined as individuals who are at least 15 years of age and who, during a specified week preceding the survey (the reference week), were either employed or unemployed but were actively looking for work. The labour force also includes those who are available for work in the reference week although they may not be contributing to economic production (i.e., the unemployed). The

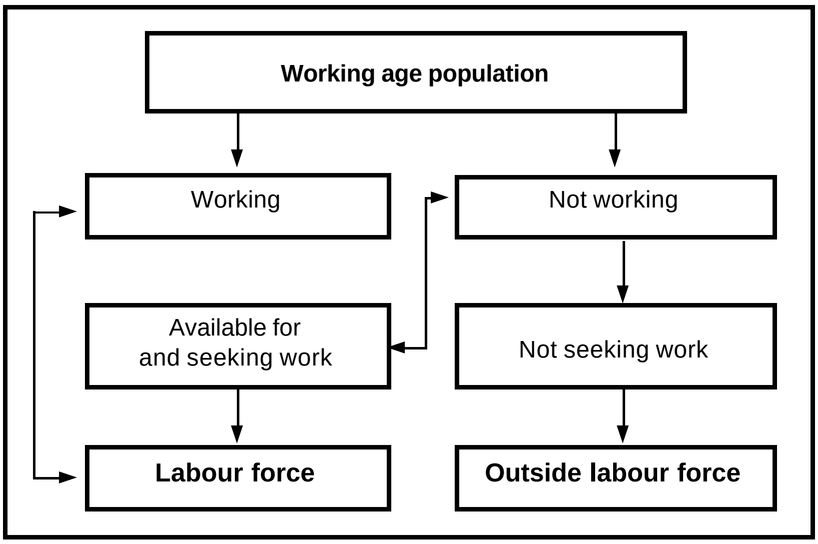
The **working age population** refers to the segment of the population not younger than the minimum legal working age and not older than the retirement age. In Lao PDR, a person may be legally employed only if he/she is at least 15 years of age, and he/she may retire at the age of 60 years old. In this paper we define "working age population" as the segment of population who are between 15 and 60 years old.

The term **unemployment** used in this study, which is based on the population census of 1995 and the Urban Labour Force Survey of 1994, is more narrowly defined than the general definition. Unemployment in this paper includes those who were in the labour force, but who were not working during the survey period.

The working age population is comprised of three categories: working, not working but were seeking work (unemployed), not working and were not seeking work (outside the labour force). See the diagram below.

The **active unemployed** includes those who were not working, but were actively seeking work.

The **inactive unemployed** includes those for whom the conventional means of seeking work was of limited relevance, the labour market was unorganised or had a



$$\textbf{Labour force participation rate} = \frac{\textbf{Number of employed + Number of unemployed}}{\textbf{Working age population}}$$

limited scope. The term also applied when labour absorption was inadequate at a particular time, or the labour force was largely self-employed.

Underemployment is reflected in inadequate hours of work or low income, or both. The phenomenon of underemployment in the Lao PDR is a more serious issue than that of open unemployment. There are two categories of underemployment:

- The **visible underemployed** are those who work less than what is normally considered full-time (eight hours per day, five days per week), and want to work more, but cannot find additional work.
- The **invisible underemployed** or **disguised underemployed** are those who actually spend a portion of their working time not working or doing unproductive activities.

Employees are persons who derive income from wages and salaries.

Non-employees include (a) employers, (b) own-account workers (workers in the informal sector), and (c) unpaid family workers.

Policy measures include all regulations, laws and policies of the government that are related to the labour market.

3.2. Labour Market, Economic Growth and Poverty Reduction

3.2.1. General Background of the Country and Economy

The Lao PDR is a relatively small country with approximately 5.1 million inhabitants. Sixty-eight ethnic groups live in an area of 236,800 square kilometres. The country has an eastern border of 1,957 km with Vietnam, a western border of 1,730 km with Thailand, a southern border of 492 km with Cambodia, a northern border of 416 km with China, and a 230 km border with Myanmar. The location of the Lao PDR, therefore, provides a strategic land link for closer sub-regional cooperation among these countries.

Although the Lao PDR has no direct access to the sea, it has many rivers. Major stretches of the Mekong and its tributaries are navigable and provide alluvial deposits for some of the fertile plains. Mountainous regions cover around 60 percent, or two-thirds of the country. Although the mountains pose difficulties for transportation and communication, they and the rivers present a vast potential for hydropower and irrigation infrastructure development projects.

The water resource is probably the most important natural resource endowment of the country. The Lao PDR has a large amount of untapped hydropower in a region where electricity demand is high and will likely rise in the long term. Currently, about 2 percent has been exploited, and about 70 percent of that is being

exported to Thailand. Forests cover about 47 percent of the country, comprising a wide variety of commercial tree species suitable for production of sawn timber, plywood, parquet, and furniture. More than 80 percent of domestic energy consumption is based on wood fuel. Deposits of gemstones such as sapphires, zircons, and amethysts, as well as gold, copper, iron ore and tin are known to exist within the country.

In 1986, after 11 years of a centrally-planned economy, the government undertook strong measures to shift the economy away from a centrally-planned to a market-driven economy, within the framework of the NEM (New Economic Mechanism). The initial actions of the government were to free virtually all prices, eliminate subsidies and state-owned sectors, to unify the exchange rate in close alignment with the market rate, and to encourage private and foreign commercial activities in most sectors of the economy. The NEM measures also included trade liberalisation and financial reforms, such as a new liberal Foreign Investment Law, which permits domestic and foreign joint ventures, as well as wholly foreign-owned enterprises. In addition, the enactment of labour laws, together with commercial laws, provides a framework to support the development of a market-oriented economy in the country.

Overall, the reforms have contributed to relatively-high national output growth, with an average annual GDP growth of 6.3 percent between 1991 and 1999. This high economic growth may be attributed to: (i) favourable conditions for the agriculture and forestry industries; (ii) expanding exports of lumber and wood products, garments, assembled motorcycles and electric power; and (iii) inflow of foreign capital, including ODA (Official Development Assistance), and foreign direct investment.

The agricultural sector, which accounted for 52 percent of the GDP and absorbed 80 percent of the labour force in 1999, remains predominantly subsistence in nature. Nonetheless, the agricultural sector performed exceptionally well, with an annual average real growth rate of 4.6 percent. At the outset of the Asian crisis, in 1997, the agricultural sector grew by 7.0 percent, slid down to 3.1 percent in 1998, due mainly to bad weather, and regained its growth to 8.2 percent in 1999 (Table 3.1). While the Asian crisis did not show any negative effect on growth in agricul-

Table 3.1. Growth Trends of Real GDP and Output of Major Sectors, 1991-

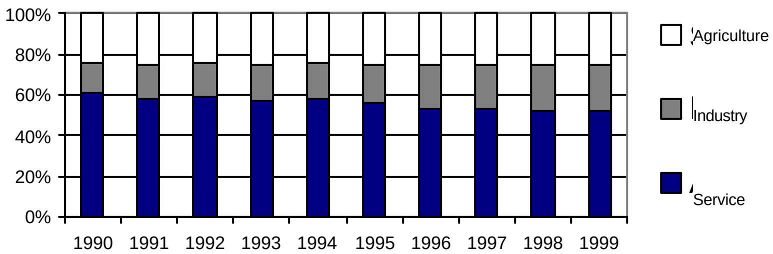
Indicators	1991	1992	1993	1994	1995	1996	1997	1998	1999
Overall GDP	4.0	7.0	5.9	7.7	7.5	6.9	6.9	4.0	7.3
Agriculture	-1.7	8.3	2.7	8.3	3.1	2.8	7.0	3.1	8.2
Industry	19.9	7.5	10.3	10.7	13.1	17.3	8.1	9.2	7.9
Services	6.5	3.9	7.7	3.9	12.0	8.5	7.5	5.5	6.9

Note: [a] Percent changes were calculated using values measures at the 1990 constant price. Source: National Statistical Centre

tural output, its impact restricted growth most markedly in the industrial sector (i.e. mining, manufacturing, construction and electricity), whose aggregate output accounted for 22 percent of the GDP. From 1997 to 1999, the industrial output growth was estimated at well below the double-digit growth levels enjoyed between 1993 and 1996.

Rice remains the most important crop in the agricultural sector, but its share declined to 55 percent of total agricultural production in 1999, from 61 percent in 1990. Other crops include coffee, maize, starchy roots, soybeans, mung beans, peanuts, tobacco, cotton, sugar cane and tea. Livestock, which include buffaloes, cattle, pigs, sheep, goats, poultry and other animals, and fish, together made up 34 percent of the total agricultural production in 1999. Figure 3.1. displays the composition of the GDP by major sectors.

Figure 3.1. Share of GDP, 1990-99



Source: National Statistical Centre

Between 1990 and 1999, the Lao economy was undergoing a remarkable degree of structural change. The most dramatic change was in the agricultural sector share in GDP, which shrunk by 8.5 percent, from 60.7 in 1990 to 52.2 percent in 1999. The industrial sector's share increased by 5.6 percent, from 14.4 percent in 1990 to 22 percent in 1999. See Table 3.2 for more details.

Prices and domestic currency, the kip, remained relatively stable until the end of 1994. According to official rates, between 1994 and 1995, the inflation rate accelerated up to 26 percent and the kip depreciated by almost 30 percent against the US dollar (from 718 kip per dollar in 1994 to 920 kip per dollar in 1995). The kip regained its stability against the US dollar for about a year and began its downward slide against the dollar again in 1997. The pressures on the kip continued to increase, resulting in a further decline of the kip to an (official) average rate of 7,578 kip per US dollar by the end of 1999. (The average parallel market rate was 7,614 kip per US dollar in 1999). For more data and other critical indicators of the economy, see Appendix 3.1.

Table 3.2. Structure of GDP by Sector (figures are in percent share of GDP)

Sector	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999 est.
Agriculture	**60.7**	**57.3**	**58.0**	**56.3**	**56.4**	**54.3**	**52.2**	**52.2**	**51.8**	**52.2**
Crops	36.7	30.7	32.4	27.3	28.4	25.8	24.9	26.5	27.2	28.7
Livestock & Fishery	20.8	22.9	23.3	22.9	22.1	21.4	20.6	19.7	19.4	18.5
Forestry	3.2	3.8	2.3	6.1	5.9	7.0	6.7	6.0	5.2	4.9
Industry	**14.4**	**16.6**	**16.7**	**17.4**	**17.8**	**18.8**	**20.6**	**20.8**	**21.9**	**22.0**
Mining & Quarrying	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.4	0.4	0.5
Manufacturing	9.9	12.3	12.6	12.8	12.7	13.9	15.4	15.7	16.6	16.5
Construction	2.9	2.8	2.8	3.1	3.3	3.3	3.5	3.4	2.8	2.6
Electricity & Water	1.4	1.4	1.1	1.3	1.6	1.3	1.4	1.3	2.1	2.3
Services	**24.1**	**24.6**	**23.9**	**24.3**	**23.7**	**24.5**	**24.8**	**25.0**	**25.3**	**25.2**
Transport & Communi.	5.2	5.0	5.0	4.9	4.7	5.2	5.4	5.5	5.7	5.8
Wholesale & Retail Trade	6.8	7.2	7.2	8.1	8.1	8.3	8.6	8.9	9.4	9.4
Banking	1.1	1.0	1.0	1.1	1.1	1.4	1.3	1.3	1.3	1.3
Ownership & Dwelling	4.0	4.4	3.4	3.5	3.5	3.4	3.4	3.2	3.2	3.0
Public sector	5.8	5.0	4.6	4.3	3.7	3.3	3.1	2.9	2.9	2.9
Non-profit institutions	0.9	1.5	1.7	1.5	1.3	1.2	1.2	1.1	0.8	0.7
Hotel & Restaurant	0.2	0.4	0.8	0.8	1.2	1.5	1.7	1.7	1.8	1.9
Other services	0.1	0.1	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Import duties	**0.9**	**1.4**	**1.4**	**2.0**	**2.1**	**2.5**	**2.4**	**2.0**	**1.1**	**0.6**
GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: National Statistical Centre

The drive to attract foreign direct investment since 1986 appeared to produce good results, though it is very difficult to measure the actual foreign direct investment inflows into the country. Foreign investment is not fully captured in the balance of payments, and the only available source of data from the Foreign Investment Management Cabinet (FIMC) was based on approvals rather than the actual project implementation. Estimates of the realised investment flows are therefore not reliable. In any event, according to the FIMC, foreign investment inflows have grown steadily and rapidly each year since 1986, and from 1988 to November 1999, the government approved 779 investment licenses worth approximately US $5,771.8 million.

However, the Asian financial crisis, which began in mid-1997, resulted in a serious liquidity crunch among East Asian investors and businesses. Foreign direct investment, which was almost the sole source of private capital investment in Lao PDR, decreased accordingly. Both foreign investment approvals and disbursements contracted. The approvals fell from US$975.3 million in 1996, to US$113 million in 1997, and then to US$97.6 million in 1998. In the first 11 months of 1999, the approvals, however, recovered to US$106 million. Although this amount was very low in comparison with the past, they still contributed more than 7 percent of GDP.

Despite the economic growth since the NEM was adopted in 1986, 36 percent of the total population remained in poverty at the end of 1997. In addition, the Lao PDR still lags behind other countries in this region in many key areas as illustrated

in Table 3.3.

3.2.2. Structure of the Labour Force

This section was initially intended to review the structure of the labour market. However, the lack of systematic monitoring of the labour market does not allow us to review the labour-market structure in this report meaningfully. Therefore, in this part of the report the structure of the labour force is reviewed instead. Data and information are obtained from the Population Census of 1995 and the Urban Labour

Table 3.3. Social Indicators of Selected SE Asian Countries in 1997

Social Indicators	Lao PDR	Cambodia	Thailand	Vietnam	Myanmar
Human Development Index	0.491	0.514	0.753	0.664	0.580
GDP *per capita*	360	276	1870	NA	NA
Life expectancy	53.2	53.4	68.8	67.4	60.1
Adult literacy	58.6	66	94.7	91.9	83.6
Educational enrolment rate	55	61	59	62	55
Fertility rate (per women in reproductive years)	5.8	4.6	1.7	2.6	2.4
Infant mortality rate (per one thousand births)	99	106	31	32	81
Calorie intake	2143	1974	2334	2502	2253

Source :National Statistical Centre

Force Survey of 1994.

The employed work force in the Lao PDR can be divided into three main categories. The first category is the rural work force, which largely depends on subsistence agriculture with extremely limited wage employment opportunities. The second category is the public sector work force, which consists of both the military and non-military civil service. The third category is the private sector work force, which is concentrated mainly in urban areas. It would be desirable if we could break down the labour force by age group and gender to examine their employment characteristics (participation in each sector and participation rate) and status (type of jobs and earnings). However, because of the limited availability of data, due to the lack of a systematic and on-going monitoring of labour, this report can summarise the structure of the labour force only at a rudimentary level. We first examine the overall picture of the labour force, and then move to examining the urban labour force.

3.2.2.1. Whole-country Employment

Before 1985, no specific census on the labour force was conducted. The labour force was estimated by using survey studies on health, education or welfare during wartime, and after the establishment of the Lao PDR. The structure of the non-agricultural labour force was virtually unknown outside of Vientiane, Savannakhet and Champasack. National level data on this subject must be based on a combination of existing sources.

The 1985 Population Census, in which the working age population is defined as

those males in the 16-60 age group and females in the 16-55 age group, estimated that the total labour force was about 44 percent of the total population, or equivalent to 1.6 million.[2] The 1985 Population Census shows that about 90 percent of the working age population were actually active in the labour market in the Lao PDR when the reform process started. According to the Census, 89 percent of the labour force, more than one-half of which were women, worked in the agricultural sector. The manufacturing sector employed 1.8 percent; commerce, hotel and restaurant 1.7 percent; construction, transport and communication 1.6 percent; and service and administration 5.7 percent (Table 3.4.).

Using survey data in the 1995 Population Census, the labour force, for individuals aged 15 to 59 years old, is estimated at 2.3 million. Women accounted for over 50 percent of the total labour force. The Census estimation of labour participation in 1995, however, for individuals aged 10 and over, was 70.3 percent. Women had a

Table 3.4. Labour Force and Percent Distribution of Employment by Indus-

Items	1985	1995
Labour Force (million)	1.6	2.3
Agriculture	89.2	85.5
Manufacturing	1.8	…
Construction	0.7	…
Transport and communication	0.9	…
Commerce, hotels and restaurants	1.7	2.5
Service and administration	5.7	3.9

Note: … refers to unavailable data. Source: Population Census, 1985 and 1995, National Statistical Centre

higher participation rate than men (71.2 percent versus 69.4 percent for men).

The Census shows that there had been an out-of-agriculture shift of labour into non-agricultural sectors (Table 3.1). As a result, the agricultural labour force reduced to 85.5 percent from 89.2 percent of the total labour force. Similarly, service and administrative employment shrunk from 5.7 to 3.9 percent over this same period, reflecting administrative reforms in government. Although the report of data in Table 3.1 is incomplete, it gives a rough picture of structural changes that have taken place in the economy. That is, that non-agricultural sector employment expand between 1985 and 1995.

The distribution of the Lao labour force was uneven across provinces, and rather concentrated within the Vientiane, Savanakhet, Champasak and Luanprabang urban areas. Women constituted 51 percent of the total work force in the Lao PDR. Another main characteristic of the labour force is its age structure, which includes a

2 Minimum legal working age, enacted in 1994, is 15 years old and retirement age is

large proportion of young workers. In the urban areas, young people aged 15-24 accounted for no less than 25 percent of the total labour force.

Salaried workers accounted for 10 to 14 percent of the total labour force in 1994, according to the Netherlands Economic Institute (NEI) estimates. The Social Indicator Survey (SIS) indicated that wage employment accounted for only 8 percent of the national labour force. The difference between the two surveys may be a result of growth in salaried employment. We next examine the urban labour market.

3.2.2.2. Urban Employment

Two surveys of the urban labour market were conducted, one in 1992 and another in 1994. The 1994 ULFS, which is more comprehensive than the 1992 version, used two definitions of activity status — usual status based on the past year, and current status based on the past week. The survey found that 67.4 percent of the urban population aged 15 and above participated in the labour force, and that 10.4 percent of them were unemployed. See Table 3.5. The female unemployment rate (11.6 percent) was slightly higher than that of males (9.6 percent).

The survey revealed that the group aged 20-24 years was the more active job-seeking group and followed the group aged 15-19 years. Workers in these age groups were those considered to be lacking experience, and their number was 5.5 times more than the experienced workers. Of the employed persons by age group, there were

Table 3.5. Urban Employment for Population 15 Years Old and Above in

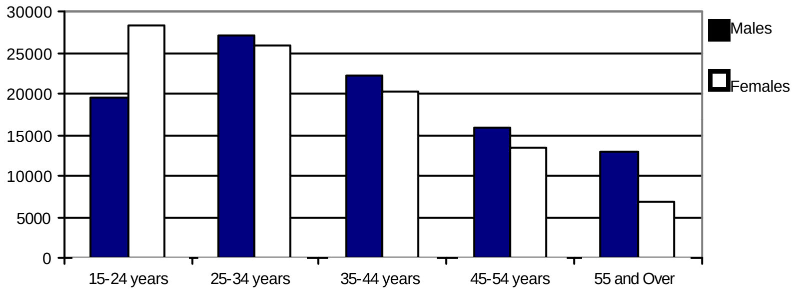
	15 year +		
	Total	Male	Female
Currently-active persons	104,429	54,412	50,017
Currently employed	93,556	49,193	45,313
Currently unemployed	10,873	5,219	5,816
Looking for work	6,721	3,615	3,106
Not looking	4,314	1,604	2,710
Current status unknown	3,745	1,715	2,030
Labour force participation rate	**67.4**	**73.7**	**61.8**
Total unemployment rate (percent)	**10.4**	**9.6**	**11.6**
Active unemployment rate	**6.4**	**6.6**	**6.2**

Source: Urban Labour Force Survey 1994

more women than men for the 15-24 age group, but men began to take over after age 25 years (Figure 3.2).

A comparison of the distribution of employment status between the 1994 and 1992 surveys conveys the importance of wage employment (Table 3.6). Wage employment increased to 50.3 percent from 32.3 percent, while self-employment shrunk to 29.4 percent from 45.6 percent. The share of unpaid family work also shrunk. All this implies that wage employment had expanded substantially over the 1992-94 period. As waged employment opportunities were created, some of the

Figure 3.2. The Urban Labour Force in 1994



Source: ULFS 1994

self-employed and unpaid family workers made a switch to engage in income-earning employment.

The distribution of urban employment across major sectors of the economy and industries in 1994 is shown in Table 3.7. Services absorbed over 75 percent of the total urban labour force, followed by industry at 18.7 percent, and agriculture at 6 percent. According to data in Table 3.7, the public sector, which includes government and state-owned enterprises (SOEs), made up 32.7 percent of total urban employment. In 1994, over 31 percent of the urban employed were self-employed. Females accounted for 23 percent of the total employment in the public sector.

In the public sector, employment was concentrated in services, due to the importance of public administration and social services, such as education and health. Employment in state-owned enterprises (SOEs) was mainly found in the industry and service sectors. The majority of the self-employed were in service-oriented activities.

The expansion of the private sector and liberalisation measures has led to a decreased share of public employment. Total public sector employment was reported at 154,906 in 1992, and declined to 130,700 by 1995 (Table 3.8).

Growth in the informal sector is a common feature of transitional and developing economies. The informal sector normally comprises self-employment activities outside of agriculture, including many types of small-scale private business activi-

Table 3.6. Percent Share of Urban Wage Employment in 1992 and 1994

Status	All Households Total	
	1992	1994
Wage employment	32.3	50.3
Self-employment	45.6	29.4
Employer	1.0	2.8
Unpaid family worker	12.7	7.3
Farmer/ fisherman	-	5.4

Source: National Statistical Centre

Table 3.7. Distribution of Selected Urban Employment Categories in Major Sectors of the Economy in 1994

Sector	Govt.	SOE	Private(paid)	Self-employed	Total
Agriculture	1,251	253	47	45	5,213
Industry	498	3,692	6,494	3,645	16,183
Services	17,773	4,846	10,787	23,259	65,092
Total	19,522	8,791	17,328	26,949	86,488
Agriculture (%)	6.4	2.9	0.3	0.2	6.0
Industry (%)	2.6	42.0	37.5	13.5	18.7
Services (%)	91.0	55.1	62.3	86.3	75.3
Total	100.0	100.0	100.0	100.0	100.0

Source: Urban Labour Force Survey 1994

ties, small shops, street vendors, craftspersons, repair shops. It forms the nucleus of a formal private sector in the emerging market economy.

The 1994 Urban Labour Force Survey (ULFS) defined the informal sector in terms of two characteristics: a private non-agriculture part, which is household-operated, and the other part, including those with a total of at most five paid employees. Table 3.9 shows the distribution of informal sector workers in 1994. Wholesale and retail trade dominated the informal sector employment. The share of informal sector employment ranges from 20 to 40 percent in the construction, hotel, restaurant, business services, manufacturing, and transport sectors. Textile and clothing manufacture accounted for 45 percent of informal employment and absorbs an increasing number of female workers. Hence, women occupied an important position in the informal sector, which accounted for 61 percent of the total of informal sector employment in terms of occupations. By employment status, self-employed

Table 3.8. Structure of Public Sector Employment, 1992-1995

	Number of People			
	1992	1993	1994	1995
Public Sector Employment	154,906	145,807	138,253	130,700
Public civil service	74,160	68,940	63,720	58,500
Military and police	67,800	66,200	66,200	…
State-owned enterprises	13,000	10,667	8,333	6,000
Public administration employment				
Central administration	10,317	9,681	9,044	8,408
General Administration	2,960	2,759	2,558	2,357
Economic services	1,931	1,764	1,596	1,429
Social services	5,426	5,158	4,890	4,622
Teachers				
Health services	945	787	630	472

Source: National Statistical Centre

Table 3.9. Currently-employed Population by Formal/Informal Sector

Sector	Usual status No. of persons	%	Current status No. of persons	%
Formal sector	47,460	54.5	47,523	53.5
Informal sector	36,457	41.9	38,008	42.8
Small-scale farmer/fisherman	3,181	3.7	3,345	3.8
Sub-total	87,098	100.0	88,876	100.0
Not stated	7,410		5,631	
Total	94,507		94,507	

Source: Urban Labour Force Survey 1994

workers dominated informal sector employment (42 percent), while unpaid family workers account for 0.9 percent.

3.2.2.3. Urban Unemployment and Underemployment

The current active unemployed are defined as those people who were not employed in the past week, wanted to work, and were available for work. In August 1994, 6.5 percent of the labour force was considered actively unemployed, a significant increase from the 1992 rate of 2.6 percent. The NEI study concluded that the observed growth in active unemployment was not significant, as most of the unemployed constituted new job seekers who graduated from schools just prior to the survey. The total number of unemployed also includes those who did not actively seek work during the survey's reference period. Nonetheless, the rate of total unemployment was recorded at 10.4 percent. Approximately 88 percent of the currently unemployed had never worked before. More details are available in Table 3.10.

Underemployment in the rural sector, reflected in inadequate hours of work, low income, or both, is of more significance than open unemployment. The 1994 ULFS also collected data on visible underemployment, and it was estimated at 3.3 percent of the urban labour force (Table 3.11. More detailed data on underemployment are available in Appendix 3.2). The visibly underemployed comprise those who worked less than the amount of hours normally considered as full time (40 hours), wanted to work more, but could not find additional work. A total of 9,631 of

Table 3.10. Urban Unemployment in 1994 by Employment Status in Last

	Category	Usual Status No.	%	Current Status No.	%
1	Paid employee (government)	49	1.3	82	0.9
2	Paid employee (SOE)	100	2.6	100	1.1
3	Paid employee (private)	563	14.6	610	6.8
4	Self-employed	241	6.3	220	2.5
5	Employer	11	0.3	11	0.1
6	Small-scale farmers	32	0.8	54	0.6
7	Unpaid family workers	33	0.9	0	0.0
8	Never worked before	2,820	73.3	7,897	88.0
	Total	3,849	100.0	8,974	100.0
	Unknown	7,127		2,061	

Source: Urban Labour Force Survey 1994

Table 3.11. Urban Underemployment for Population Aged 15 and Above in

	Total	Male	Female
Currently-active persons	104,429	54,412	50,017
Currently employed	93,556	49,193	45,313
Fully employed	89,021	47,077	43,979
Underemployed	3,450	2,116	1,334
Total unemployment rate (percent)	**10.4**	**9.6**	**11.6**
Underemployment rate	**3.3**	**3.9**	**2.7**

Source: Urban Labour Force Survey 1994

the employed in the survey population (10.2 percent) reported that they would have liked to work more hours during the past week.

The survey revealed that the number of underemployed is higher in the formal rather than the informal sector, which may be due to a relatively-large share of the public sector in urban employment. Males accounted for the bulk of the underemployed group (61 percent). Visibly underemployed persons reported an average of 29 hours per week, in contrast to 47.6 for those fully employed. Agricultural workers and fishermen reported the lowest average hours, at 37.3 hours. The informal sector has a longer working week than the formal sector.

3.2.2.4. Employment in Small and Medium Enterprises

The results of the small-enterprise survey of 1995 conducted by GTZ-MIH, indicate that there were 284,000 people, including owners and part–time workers, employed by 146,000 small- and medium-sized enterprises in the Lao PDR. If we count part–time workers as 0.5 workers, then the number of full–time equivalent workers was 259,000. This implies that 12.1 percent of the total labour force were working in SMEs.[3]

The work force of small and medium enterprises was composed primarily of enterprise owners and unpaid family members. In the GTZ-MIH survey, unpaid family members accounted for 36 percent of the total employees of SMEs. This was a relatively-high proportion, even in comparison with small enterprises in other countries.[4] The average SME employed 1.9 employees (including the owner), although the size of SMEs varied across the regions. Enterprises in the urban and industrial strata tended to be larger than those in the rural areas and marketplaces.

According to the handicrafts survey conducted by the Ministry of Industry in 1999, the number of workers engaged in mining, manufacturing, electricity and water supply was estimated at 37,075 in total, with 745 people working as proprietors

3 The 1995 Census estimated that the Lao labour force was about 2.14 million.

4 In seven studies of southern and east Africa, unpaid family members represented 9

and unpaid family workers, and the remaining as employees. The average establishment employed 86 workers. Among them, 70 percent were production workers, 13 percent technicians, 10 percent administrators, and 7 percent seasonal workers. The highest number of production workers was reported in the garment industry, with 85 percent being females. Electricity production employees had more technicians than any others. Wood and wood products, non-metallic mineral products (mainly the brick and tile industry), and basic metal product industries employed the most seasonal and temporary employees.

The number of female employees was higher among production workers and seasonal and temporary employees. However, the number of female technicians in industrial establishments was less than 15 percent in 1999. The distribution of employees by their functional categories and gender is presented in Table 3.12.

Paid employees are relatively uncommon in SMEs. Only 7 percent of SMEs have paid employees, and they constitute about 9 percent of the work force. The survey estimated that industrial establishments paid about 110,000 million kip for wages in the reference period. About 5 percent of the total wage bills were paid in kind, and about 10 percent as a contribution to social security. The average annual wage rate was estimated at 2.5 million kip. The average wage was higher in the mining and quarrying sectors and lower in manufacturing industries. The lowest average annual wage rates were reported to be in the wood (1.4 million kip) and the brick-

Table 3.12. Percent Distribution of Employees by Functional Categories and Gender

	Production work-	Technicians	Administrative	Seasonal and tempo-	Total number of
Male	37.14	86.11	62.46	27.96	44.98
Total	100.0C	100.00	100.00	100.00	

Source: SME Survey 1999, MIH

and-tile industries (1.9 million kip), where a large number of seasonal workers were employed.

Average wages and salaries were almost two times higher for male than for female employees. Male employees on average received 2.66 million kip in the reference year, against 1.41 million kip for female employees in the same period. The male-female wage discrepancy was explained by the fact that average wages and salaries for females in the predominantly-female textile and garment industry, were lower than that of male employees in other industries.

3.2.2.5. Structural Changes

Changes in the demand for labour reflect the structural changes that have taken place in the economy of the Lao PDR since the start of the reform process in 1986. The

New Economic Mechanism has boosted growth across sectors and geography, though the benefits of economic growth were unevenly disbursed in favour of major cities. Industry grew tremendously between 1991 and 1999, much more than the agricultural and service sectors (private and public). The sectoral growth divergence is a result of the transformation of the Lao production structure. Because of the predominance of agriculture in the economy at the outset, changes in the production structure have been relatively limited.

Accompanying the sectoral changes in production were changes in the structure of the labour market. The share of employees in the industry-handicraft sector (mining, manufacturing and construction) was enlarged, and the agricultural labour share reduced. In 1985, the agricultural sector employed 89.2 percent, and 1.5 percent in industry. By 1995, while the agricultural labour share reduced to 85.5 percent, the industrial labour share increased to 3.7 percent. In 1995, 93.1 percent of rural employment was agricultural, while it was 38.4 percent in urban areas. In the same year, 19 percent of urban employment was in industry, while it was 1.5 percent in rural areas.

3.2.3. Recent Trends in the Labour Market

3.2.3.1. The Population and Labour Force

The population in the Lao PDR has been growing at a relatively high average rate. Between 1980 and 1990, the population grew at an annual rate of 2.9 percent on average, raising the population from 3.2 million in 1980 to 4.1 million by 1990. The population growth rate, however, has decreased to 2.6 percent per year since 1990. By the end of 2000, it is estimated that the population will grow to about 5.2 million. The population growth trend is illustrated in Figure 3.3. The dip in 1976 (Figure 3.3) was a result of out-migration due to a change in the political system.

The labour force, however, shows a different growth pattern. Between 1980 and 1985, it was estimated that the labour force grew at an annual average rate of 1.3 percent, but it increased to 2.1 percent between 1985 and 1990. Thereafter, the labour force grew at about 2.6 percent annually. Figure 3.4 shows trends of the labour force (bars) and its growth rate (line).

Labour force projections estimated that the labour force in the Lao PDR would rise to 2.7 million by 2005, and 3.1 million by 2010. Table 3.13 shows the projections of the labour force up to 2020.

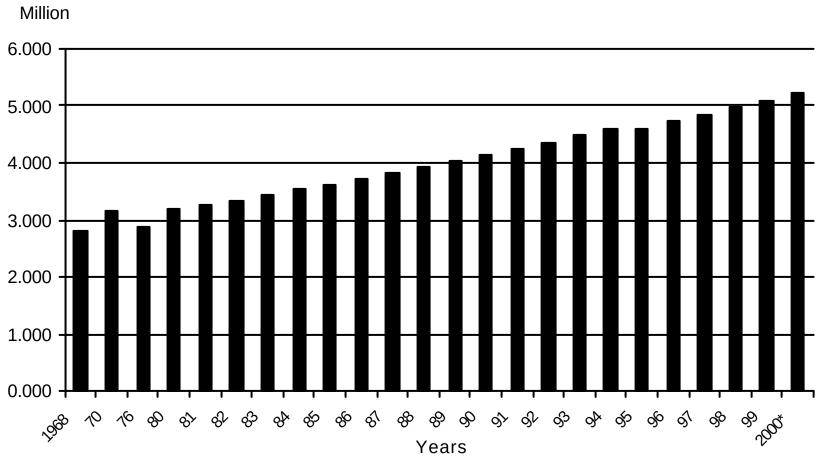
3.2.3.2. The Supply and Demand for Labour

It has been recognised that the Lao PDR has a shortage of skilled labour. Table 3.14 shows the level of educational attainment of the labour force in the Population Cen-

suses (1985 and 1995) and the Urban Labour Force Surveys (1992 and 1994).

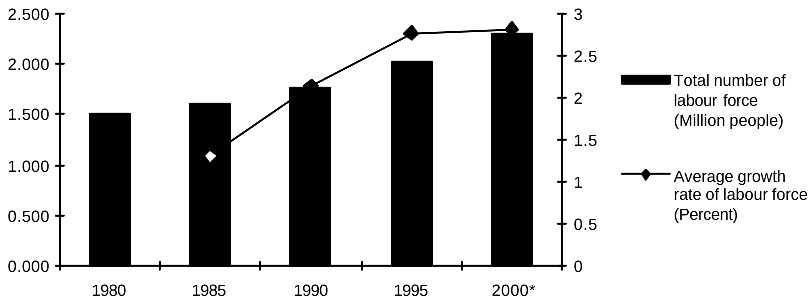
According to the 1985 Population Census, a large portion of the total labour force (81.3 percent), had only primary education, and just 0.3 percent of the total

Figure 3.3. Population Growth Trend, 1968-2000



Source: National Statistical Centre

Figure 3.4. Average Growth Rate of Labour Force



Source: National Statistical Centre 1995

Table 3.13. Projected Labour Force

Years	Projected Labour Force (Million people)	Average Annual Growth Rate (Percent)
2005*	2.673	2.99
2010*	3.098	2.96
2015*	3.605	3.03
2020*	4.087	3.00

Source: National Statistical Centre 1995

Table 3.14. Education of the Lao Labour Force

	Population Census				Urban Labour Force Surveys			
	1985		1995		1992		1994	
Education completed	Total (Percent)	Female (Percent)	Total (Percent)	Female (Percent)	Total (Percent)	Female (Percent)	Total (Percent)	Female (Percent)
Primary	81.31	84.50	54.6	58.3	38.70	37.40	23.60	24.60
Lower secondary	13.48	11.56	22.0	21.6	18.20	17.20	19.58	19.33
Upper secondary	3.57	2.75	11.9	10.4	13.60	10.70	13.94	13.35
Technical college	0.43	0.35	8.5	7.7	3.30	2.40	15.15	12.55
Higher education	0.32	0.17	3.0	2.0	4.10	2.50	8.28	4.23

Sources: Population Census 1985,1995 and Labour Force Surveys 1992,1994

labour force had completed education higher than technical school. In 1985, only 0.2 percent of the total female labour force had education higher than technical school. The Urban Labour Force Surveys found that the proportion of the urban labour force with technical college and higher education attainment generally in

creased between 1992 and 1994. The demand for labour is difficult to determine because Lao PDR still does not have a systematic way to monitor changes in the labour market. Nonetheless, the low unemployment rate implies that demand for labour has been moving in the same direction as the supply of labour. Increased employment of foreigners reflects the increased demand for skilled workers, which in the Lao PDR is lacking. Although the number of Lao citizens who have completed university degrees has been increasing, especially for women, the supply of skilled workers is still far below the market demand.

3.2.3.3. Wage Differentials and Wage Movements

An analysis of wage data is crucially important in analysing labour-market trends. The limited data do not permit an in-depth discussion of wage issues. Under the previous centrally-planned system, the wage structure was largely egalitarian and compensation was not correlated with skill levels. Thus, the wage structure has led to a substantial misallocation of labour and discouragement of skill acquisition.

The World Bank's (1993) wage survey in Lao PDR revealed wage differences across occupations and between the private sector and public sector. As would be expected, private sector wages were generally higher than those for civil servants and SOE employees (Table 3.15). Civil servants, especially, earned less than almost all occupations in the private sector. In the public sector, SOE employees on average enjoyed higher pay levels than others in the public sector.

Compared with government departments, many state enterprises pay workers higher salaries and bonuses. Some have been able to do so not because of increased efficiency but because their recently-granted financial and managerial autonomy has allowed them to borrow from the state banking system and thus to finance large wage increases. Others have distributed after-tax profits to workers and managers as

bonuses in order to boost their motivation, and ideally improve efficiency. As a consequence, income disparities among workers in state enterprises have widened.

The public wage structure is determined by the state and has not changed significantly from the old centrally-planned system. The widening gap between public and private sector wages has made it difficult to attract or retain qualified personnel. Consequently, the public sector wage structure was revised at the end of 1993. Although the average public sector wage level rose from 20,000 to approximately 30,000 kip per month between 1992 and 1994, the ratio between the highest and lowest rates in different categories remained relatively undifferentiated, ranging between 2:1 and 3:1.

Firm interviews suggest a wide range of salaries in each occupation, as well as large differences among occupations (Table 3.15). Garment workers, mostly women, are paid between 29,000 and 90,000 kip. The export-oriented firms tend to pay their workers higher wages than others. Supervisors and technicians in the private sector earn starting salaries that are about one-third more than that of unskilled workers. The rapid increases in private sector salaries reported in several skilled occupations, including motor vehicle mechanics, technicians, and supervisors, suggest shortages of these skills.

According to the World Bank (1995) survey results, wage differentials within industries remain quite small. The ratio between the maximum and minimum wage by industry was 154:100 for regularly-paid male employees, and 133:100 for females. The maximum wage for regularly-paid female employees was found in the hotel and restaurant sector, while males received the maximum wage in the electricity, gas and water supply industry. However, wage gaps in the private sector are slowly widening, with the differential ranging to more than 3:1 in the case of garment industry workers and managers (Table 3.15). The upper end of the pay scale proba-

Table 3.15. Range of Monthly Wages in Selected Private Occupations in Vientiane in 1993

Occupation	Monthly Salary / Wage in Kip
Private Sector	
Garment workers	29 000 - 90 000
Restaurant workers	20 000 - 70 000
Motor vehicle mechanics	30 000 - 75 000
Unskilled construction workers	30 000 - 50 000
Skilled workers	40 000 - 60 000
Brewery workers	30 000 - 40 000
Supervisory workers	60 000 - 80 000
Technicians	40 000 - 80 000
Managers, large firms	140 000- 300 000
Public Sector	
Government employees	18 000 - 33 000
Production workers, state firm	30 000 - 70 000

Source: World Bank 1994

bly represents highly skilled foreign workers.

The ULFS of 1994 collected data on wage rates (both cash and in-kind) for employees with regular working hours. In-kind wages, such as subsidised food, housing and rations, which were more important under the previous command system, accounted for 5 percent of the total wages in 1994. Data on wages for non-regular and casual work were not collected by the 1994 ULFS due to difficulties in reporting. Thus, the value of the data collected on wage rates is limited, as earnings generated by casual work are more sensitive to labour-market signals.

In general, the 1994 Urban Labour Force Study found that male wages were approximately 30 percent higher than female wages. However, in manufacturing, the male-female remuneration gap rose significantly to 60 percent. Wages generally rose in conjunction with the level of educational attainment. Wage levels for both males and females rose steadily until the 35-44 age bracket (Table 3.16), at which point the male wage rate peaked, while women's wages continued to rise until they entered the 55-64 age group.

3.2.3.4. Findings from the Labour Migration Survey, 2000

Based on the 43 companies interviewed, the minimum monthly wage was 90,000 kip, based on the normal eight-hour day and five-day work week. In most cases, monthly wages ranged from 200,000 kip to 350,000 kip. The average monthly wage was 210,247 kip. Some companies paid overtime. In addition to the basic salaries, 83.7 percent of the 43 companies interviewed provided a lunch, a dormitory, and a uniform to their workers. Almost all companies interviewed (97.9 percent of them), provided health insurance, and 53.5 percent provided a pension. Payment frequency varied across companies, some paid weekly or biweekly, and others paid monthly.

A rough estimate of salary figures in Table 3.17 suggests that nominal wages have steadily increased since 1988, although in some years at a rate lower than that of the Consumer Price Index (CPI). Nevertheless, overall real incomes of employed workers improved. For government employees, however, this improvement was more apparent than real. This was mainly because payments in kind to them were

Table 3.16. Monthly Average Wage of Regular Paid Workers by Age Group

Age group (Years)	Male Wage	Female Wage	Average Wage
10 to 14	28,501	30,413	29,200
15 to 24	39,852	36,305	38,042
25 to 34	49,974	39,583	46,089
35 to 44	56,013	40,162	52,203
45 to 54	53,545	39,761	51,228
55 to 64	52,783	44,989	52,355
65 or older	40,923	15,000	38,493
Overall	50,320	38,437	46,298

Source: Urban Labour Force Survey 1994

discontinued in 1989, and their nominal wages have not caught up with inflation.

According to the 1992 labour-market survey, the average monthly salary of urban workers was 30,000 kip. This was little more than the minimum monthly wage of 28,000 kip which the government set in 1990. Nearly one-half of the workers surveyed, most of whom were women traders with little formal education, reported monthly incomes of over 50,000 kip.

This finding does not indicate that skills, as measured by formal education, are not rewarded in the Lao labour market. It only means that there are numerous income-earning opportunities in trading, and women take advantage of these. Trading skills also cannot be acquired from school; they are acquired through practice.

The trend in wages since the introduction of the NEM cannot be analysed due to the lack of data. However, the average monthly nominal salary in the productive sector (excluding services) rose from 4,800 kip in 1988 to 30,000 kip by the end of 1992. In real terms, the salary earners gained only marginally due to the rise in prices

Table 3.17. Average Monthly Salary and Wage Change, 1988-1992 (Kip)

Items	1988	1989	1990	1991	1992
Productive sector	480,000	1,230,000	1,500,000	2,000,000	3,000,000
Annual percent increase	11.50	77.60	11.20	16.70	50.00
Non-productive sector	340,000	950,000	1,390,000	1,500,000	2,300,000
Annual percent increase	7.90	91.40	22.90	4.00	53.30
Inflation rate (CPI)	15.2	65.9	17.7	13.3	10.2

Source: Country Economic Memorandum, IMF, 1994

of consumer goods and services over the same period. However, according to the Urban Labour Force Surveys of 1992 and 1994, there was a substantial increase in the monthly average real wage rate over the 1992-1994 period. It rose from 26,836 kip in 1992 to 41,183 kip in 1994, an annual rate increase of 26.7 percent.

Public sector wages increased by approximately 35 percent, while private sector wages rose by 15 percent over the 1992-1994 period. Managers, professionals and skilled workers experienced the largest wage gains as can be seen in Table 3.18. This may be the result of market forces have increasing influence in determining workers' wages.

3.2.4. Link Between the Labour Market, Economic Growth and Poverty Reduction

The main employment challenges include absorption of those who are openly unemployed – targeting youth, those retrenched due to privatisation, and the rural unem-

Table 3.18. Change in Real Wages, 1992-94 (in constant 1992 prices)

Occupation	Monthly Wages (Kip)		% of Annual Increase
	1992	1994	
Managers	35,935	61,923	36.1
Professionals	21,645	44,892	53.7
Technicians	18,136	38,130	55.1
Clerks	26,904	347,869	14.6
Service workers	27,458	51,331	43.4
Farm workers	22,621	39,707	37.3
Craft/Trade workers	30,966	44,431	21.7
Plant, machine operators	28,848	38,937	17.5
Elementary occupations	30,310	41,050	17.7
Average	26,836	41,183	26.7

Source: NEI 1995

ployed. An equally pressing issue is job creation for an estimated 50,000-70,000 new workers entering the labour market each year. In 1994, this was estimated at 3.7 percent of the urban labour force and 6 percent of the rural labour force. Given that a high percentage of the labour force is unskilled, human resource development is an intrinsic component of any framework addressing employment issues.

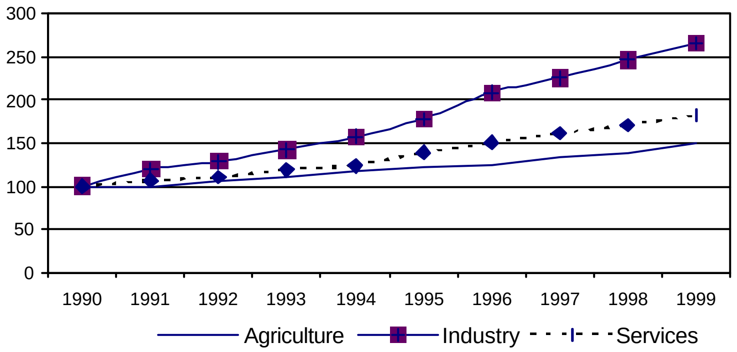
As described in the previous section, economic changes have affected the Lao labour market, particularly the level and structure of employment, unemployment, and labour income. However, because of data constraints, in particular the lack of time series data, it is very difficult to examine the relationship between output and real wage, employment and unemployment. Furthermore, though the government had made clear its intention to balance the development efforts in urban and rural areas, to examine and determine whether the benefits of growth are shared is not easy due to a lack of data and an appropriate methodology for analysis.

As countries become richer, the incidence of poverty falls on average if incomes are shared across households and regions. Other indicators of well-being, such as average education and health, tend to improve as well. Economic growth is a powerful force for poverty reduction. At the same time there are many cases in which economic growth is similar between countries but they may have different rates of poverty reduction. Does economic growth in the Lao PDR create employment opportunities, and hence create the impetus for poverty reduction? What is the quality of the labour force? To answer these questions, analysis will be concentrated on the link between growth, employment and poverty. Finally, the analysis will focus on human resource development and long-term growth.

3.2.4.1. Growth and Employment

The GDP growth by sector is illustrated in Figure 3.5, which shows that industry grew tremendously between 1990 and 1999, much more than agriculture and services. This sectoral divergence is a reflection of the structural transformation of the

Figure 3.5. GDP Growth by Sector (measured at constant 1990 price levels)



Source: Based on data provided by the National Statistical Centre

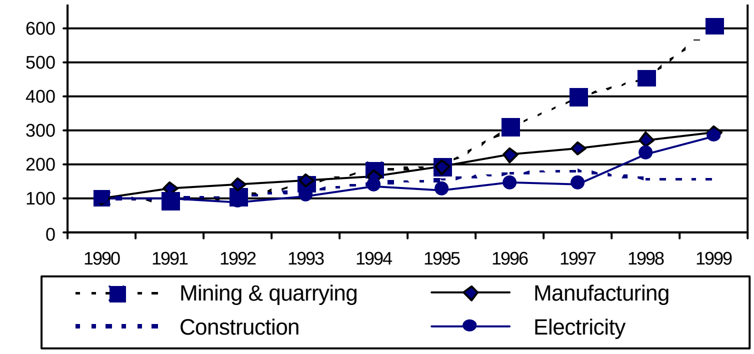
Lao economy. However, because of the predominance of agriculture in the economy at the outset, change in the production structure has been relatively limited.

There were significant differences in the evolution of output between various sub-sectors in both industry and services. Figure 3.6 illustrates these differences in the industry sub-sectors. Manufacturing, which accounted for 12.8 percent of GDP in 1999, was the largest and most rapidly-growing industry sub-sector for the entire 1990-1993 period. However, the manufacturing sector is not very diversified in the Lao PDR. The food processing industry (rice milling, beer, soft drinks), garments, cigarettes, and wood processing together make up the highest share of the manufacturing sector. Since the start of the reform process, manufacturing outputs have experienced varying evolutions, with the very rapid expansion of relatively more labour-intensive manufacturing, such as garments. During the same period, the second largest part of the industry sector was construction, which had more than a 2 percent share of GDP. The smallest industry sub-sector was mining and quarrying, with a share of 0.2 percent of GDP. During the period of 1995-1999, mining and quarrying showed the highest growth.

To sum up, the structural changes that have occurred in Lao PDR as a result of the NEM, have affected mainly the industry and service sectors. The agricultural sector was only marginally affected, which means that there were only limited pressures for allocation of labour away from rural areas in the direction of urban areas. Restructuring has mainly taken place between and within the industry and service sectors, rather than across geographic areas.

Although the economic performance of the Lao PDR was quite impressive over the last 10 years, the impact on the labour market was limited. It seems that the labour market did not respond to the rapid economic growth due to a lack of transfer

Figure 3.6. Sectoral Growth, 1990-99 (measured at 1990 price levels)



Source: Based on data provided by the National Statistical Centre

of workers out of the agriculture sector and into industry or services. However, as a result, the changing shares of each sector of GDP illustrated that there had been important implications for the rate of labour absorption, since elasticities of employment with respect to output are generally higher for the industry and service sectors (NEI 1995). The promotion of private enterprise and foreign investment had somehow increased employment.

Table 3.19 presents the projection of growth rates in GDP and employment for 2002. It shows that, in general, the non-agricultural sectors have higher elasticity and positive implications for job creation.

In order to ensure that such growth is consistent with greater labour absorp-

Table 3.19. Projection of GDP and Employment for 2002

Sector	GDP at Constant 1990 price		Annual Growth	Employment in thousands		Growth rate	Employ-ment
	1992	2002		1992	2002		
Agriculture	395 537	591 145	4.10	1 350	1 588	1.64	0.4
Mining	932	1 604	5.58	3	5	4.14	0.74
Construction	19 055	41 138	8.00	40	80	7.16	0.9
Electricity and water	7 825	19 392	9.50	9	20	8.26	0.87
Manufacturing	85 766	284 474	12.74	105	211	7.22	0.57
Transportation and Communications	34 333	81 278	9.00	34	69	7.30	0.81
Trade	49 415	106 681	8.00	137	250	6.19	0.77
Hotel and restaurants	5229	16 980	12.50	14	30	7.88	0.63
Finance	6 908	27 947	15.00	2	7	12.51	0.83
Services	1 061	3 013	11.00	32	87	10.49	0.95
Government	42 731	51 062	1.80	74	74	0.00	0.00
Ownership of dwellings	23 416	46 063	7.0				
Total	672 218	1 270 777	6.58	1800	2419	3.0	0.46

Source: Based on NEI 1995 (estimates)

tion, the macro-economic policy environment should be conducive to the attainment of these objectives. At the same time, priorities should be given to several sectors with considerable growth and labour absorption potential. These may include labour-intensive agriculture (e.g. crops, livestock and fisheries), labour-intensive export manufacturing, tourism, small and micro-enterprises, and labour-based infrastructure development and maintenance.

In the agricultural sector, the overriding need is to improve productivity and income through intensification and diversification. Growth in rural income and productivity could stimulate the demand for non-farm enterprises. On the supply side, infrastructure development and improved credit and marketing facilities are essential for growth.

The export-oriented, labour-intensive industries have not reached their full potential yet, and further foreign investment should be concentrated in these areas. In addition, the service and tourism sectors have considerable potential to generate future employment. In 1995 these sectors employed approximately half of the non-rural private sector workforce. The service sector also attracted approximately 42 percent of all licensed foreign investment between 1988 and 1995, with the exception of energy sector investment.

3.2.4.2. Economic Growth and Poverty Reduction

Countries that have been most successful in attacking poverty have encouraged a pattern of growth that makes efficient use of labour and invests in the human capital of the poor. Both elements are essential. The first provides the poor with opportunities to use their most abundant asset – their labour. The second improves their immediate well-being and increases their capacity to take advantage of newly-created possibilities.

It is clear that economic growth is necessary for poverty reduction. But there are significant differences across countries and over time as to how much poverty reduction occurs at a specific level of economic growth. What explains these differences? For a given economic growth pattern, the extent of poverty reduction depends on how the distribution of income changes with growth and on the initial inequalities in income, assets, and access to opportunities that allow poor people to share (World Bank 2001).

3.2.4.3. Poverty Incidence and Characteristics of the Poor

In this report a person is “poor’’ if his total monthly consumption expenditure is below what is needed to purchase enough food per person to provide 2000 calories

5 National poverty line includes food and non-food poverty lines.

per day. The poverty profile of the Lao PDR is based on the Lao expenditure consumption surveys pertaining to 1992/93 and 1997/98. This section presents poverty incidence and their characteristics across regions inside the Lao PDR.

The population whose living conditions were below the national poverty line was estimated at 36 percent, meaning that about 1.9 million people were living in a state of absolute poverty in 1997/98.[5] There were large differences in the incidence of poverty between urban and rural areas and among regions. Poverty incidence in urban areas was reported at 18 percent, and in rural areas, at 40 percent. The north had the highest poverty incidence, estimated at 46 percent, followed by the south, at 39.8 percent, and the centre, at 28.4 percent.

The data reported in Table 3.20 indicated that, although the total population of Lao PDR living in poverty is large, (36 percent), the poverty gap is relatively small, (9.4 percent). There are, however, large differences in the poverty gap index in certain regions and areas. The average poverty gap is seven times larger in rural areas (10.5 percent) than in urban areas (3.8 percent). In regional terms, the north has a poverty gap (13.7 percent) that is twice that of the centre (6.4 percent), indicating that poverty is much more extensive in the north than in the centre and the south.

The estimate of mean *per capita* consumption increased by 11.4 percent over the 1993-98 period, which was equivalent to an annual growth rate of about 2 percent (Table 3.21). Compared to many other Southeast Asian countries, inequality in the Lao PDR is not great. In 1992/93, the bottom 20 percent of the population had a 9 percent share in *per capita* real consumption, while the richest 20 percent had a 40 percent share. Unfortunately, in 1997/98, the consumption share of the bottom 20 percent of the population declined to 8 percent, while that of the richest increased to 44 percent. The Gini Index, which measures income inequality, increased to 35.0 in 1997/98 from 30.9 in 1992/93. This is a sharp increase in inequality over a five-year period.

Table 3.20. Poverty and Inequality Across Regions in Lao PDR

Region	Population	Head count index		Gini coefficient		Poverty gap index		Squared poverty gap	
		1992/93	1997/98	1992/93	1997/98	1992/93	1997/98	1992/93	1997/98
Urban		na	17.5	na	39.4	na	3. 81	na	1.28
Rural		na	40.0	na	32.2	na	10.48	na	3.99
North	32.3	48.9	46.0	0.281	0.351	12.96	13.7	4.79	5.74
Centre	48.5	32.8	28.4	0.310	0.349	7.17	6.37	2.29	2. 09
South	19.2	43.8	39.8	0.325	0.324	11.52	9.78	4.29	3. 56
Lao PDR	100	40.1	36.3	0.309	0.350	9.88	9.37	3.48	3. 54

Source: National Statistical Centre and World Bank 2001

6 "Literate heads of households" are defined as those who can read and write Lao.

Table 3.21. Consumption Distribution by Quintile, 1992/93 and 1997/98

	Poorest	2nd quintile	3rd quintile	4th quintile	Richest	Total
1992/93						
Per capita monthly expenditure	13,460	19,102	24,309	32,263	60,005	29,808
Share in total expenditure (%)	9.0	12.8	16.3	21.7	40.1	100
1997/98						
Per capita monthly expenditure	13,314	19,895	25,810	34,419	72,614	33,199
Share in total expenditure (%)	8.0	12.0	15.5	20.8	43.7	100
Annual growth rate of *per capita* monthly expenditure (%)	-1.1%	4.2%	6.2%	16.7%	21.0%	11.4%

Sources: National Statistical Centre and World Bank 2001

With respect to literacy, over 80 percent of the population have literate heads of households.[6] The households with an illiterate head are disproportionately poorer. For the population with illiterate heads, 51.5 percent of them were poor, while 32.5 percent of households with literate heads were poor. While the female-headed households are often defined as a group that is also disproportionately poorer than male-headed households, Lao expenditure consumption survey of 1997/98 data suggest that this is not the case in the Lao PDR. Instead, an analysis suggests that female-headed households in the Lao PDR, a relatively small group (5 percent of total population), are less poor than their male counterparts.

While farm households made up the largest share in the labour force, they also suffer poverty proportionately more than other segments of the population, except for the unemployed. The 1997/98 Lao expenditure consumption survey found that farmers and the unemployed suffered the highest incidence of poverty, (41 percent for farm households and 45.6 percent for the households with an unemployed head). Paid employees are poor due to the decrease in their real income. About 12.4 percent of employers were also poor, resulting from an unprofitable business or debt. See Table 3.22.

A study noted that urban dwellers that made the transition from subsistence to private market activity generally constituted the main beneficiaries of development efforts to date. Geographic, linguistic, and cultural barriers have left many areas untouched by development. As such, some rural areas are caught in the “poverty trap of low productivity and slow growth” (World Bank 1995).

3.2.4.4. Aspects of the Rural Labour Market and Employment

Even though it is clear that the bulk of the labour force is employed in rural areas, little data is available concerning rural employment. The penetration of the NEM into the rural sector has been slow and limited, due partly to problems of infrastructure and access to the market. Thus, rural unemployment issues remain less of an immediate priority to employment planners. However, it seems that rather than open unemployment, underemployment and its relationship to the seasonality of

agricultural work, low productivity, low incomes and poverty are the major problems.

A study on the agriculture sector by the World Bank in 1995 noted that there is a dichotomy in the labour market. On the one hand, the central and southern regions, including Vientiane municipality, are already facing a labour shortage and high wages, particularly where large projects have been implemented. In these areas, labour-saving technology in the form of engine-powered and hand tractors are on the increase. On the other hand, in the northern region, where about 40 percent of the total population reside, labour was fully employed but at a low level of productivity, and hence, low wages. Due to Lao PDR's topography, most of the farming activities in the north take place in the uplands, making mechanisation difficult.

The poor and non-poor also differ notably in their economic activity status over the year. Table 3.23 shows the time allocation over a 12-month period of the household head and other household members across four activities: (i) farm, (ii) non-farm self-employment and wage employment, (iii) unemployment, and (iv)

Table 3.22. Poverty by Employment Status of Household Head in Different Occupations in 1997/98

Employment status	Population share	Headcount Index % of the poor	Contribution to total
Paid employee	12.9	20.10	7.2
Employer	0.7	12.42	0.3
Self-employed	13.4	29.95	11.1
Farmer	59.7	41.03	67.6
Unpaid family worker	2.5	34.22	2.4
Unemployed	0.5	45.55	0.7
Outside labour force	9.9	39.00	10.7

Source: National Statistical Centre and World Bank 2001

outside the labour force. Table 3.23 shows that poor households generally depend on farming as their main source of income, and have fewer non-farm opportunities compared with non-poor households.[7] Household heads from very poor households spend on average about 1.8 months less on non-farm activities than those from non-poor households. The average time being unemployed for heads of households over a 12 month period is about the same for poor and non-poor households. While there are some differences by poverty levels, it is notable that farm activities dominate the time allocation for all households, poor and non-poor.

The Lao National Transport Study stated that the usage of more labour-intensive methods in rural infrastructure work is important in that it lowers the cost of rural infrastructure development and creates job opportunities for the rural population, who would otherwise have nothing else to do. Utilising underemployed la-

7 Non-farm employment is characterised by a limited range of handicraft production, processing of agricultural produce, and rural trade and services.

Table 3.23. Economic Activities of Household Head by Level of Poverty

	Number of months during the previous years			
	Very poor	Moderately poor	Non- poor	Total
Paid employee / employer / self-employed	1.95	2.2	3.89	3.32
Farming	7.64	7.48	6.23	6.65
Unemployed	0.09	0.08	0.11	0.1
Outside Labour force	2.32	2.24	1.77	1.93
Total	12	12	12	12
All household members over age 10				
Paid employee / employer / self-employed	1.3	1.6	2.66	2.28
Farming	6.39	5.97	5.01	5.37
Unemployed	0.09	0.09	0.14	0.13
Outside labour force	4.23	4.34	4.19	4.22

Source: National Statistical Centre and World Bank 2001

bour during the dry season in the areas of infrastructure projects may have cumulative benefits for both the rural sector and the national economy. However, low rural population density and high utilisation of labour during prime agricultural seasons cause fluctuations in the available workforce.

3.2.4.5. Human Resource Development and Long-term Growth

At least as important for economic development as the size of the labour force, is its quality – that is, the skill possessed and human capital accumulated by the labour force. This is important in the Lao PDR because most jobs created in the industry and service sectors over the past few years require higher skills. However, the level of human capital in Lao PDR generally lags behind the needs of today's economy. The educational attainment of the labour force is low; a large portion of the labour force lacks the basic skills needed to work in the industry and service sectors. According to official sources in 1993, at least 36 percent of the Lao population aged 15 and older could not read and write. See Table 3.14 for the educational attainment of the Lao labour force. Educational investments are generally biased in favour of urban children.[8] In addition, it is generally admitted that the quality of schooling in Lao PDR is poor, which is partly due to resource shortages. Poorly-trained teachers, inadequate curriculum and instructional materials, a chronic shortage of materials and over-crowded classrooms are the factors most often used to explain the poor quality of the Lao educational system.[9] These problems are particularly acute in remote rural areas, where they are compounded by the language barrier facing minority students.

Over the past few years, however, higher education has expanded and im-

8 See for example, Tilak (1993:275-276)

9 For an overview of problems faced by the Lao educational system, and difficulties met in attempting to reform it, see Giaccchino-Baker (1994).

proved somewhat in the Lao PDR. The number of students in higher technical education and colleges has increased, and new institutes of agriculture, law and business administration have been established. Commercial skills, nursing skills, technical skills and skills related to forestry and agriculture are the main fields in technical colleges. Now, some 3,000 students graduate each year with college degrees (2,200 from technical colleges and 800 from institutes or universities). The remaining graduates, some 400, come from educational fields such as communications, architecture, forestry and electronics (Bourdet 1996). In addition to the public educational system, there are now more than 10 private schools, eight of which are in Vientiane. These have started providing short-duration courses, mainly in business and foreign languages.

3.2.4.6. Training Provided by Employers

In 1994, the Asian Development Bank and the Netherlands Economic Institute jointly conducted a training needs assessment survey which covered 120 firms in six growth sectors: manufacturing (50), construction (27), utilities (5), transport (6), trade (16), finance (3) and services (23). The number of employees amounted to 9,773, of which 56 percent were males. Demand for four types of training was identified: on-the-job training, formal training, training by supplier, and other training in the form of seminars, study tours and workshops (NEI 1995).[10]

Nineteen percent of the workforce surveyed received some form of training in the areas of management, finance, service and sales, clerical and computer skills through one of the labour training mechanisms. On-the-job training was the most common type of training supplied by employers to 11.6 percent of workforce. Formal training, training by supplier and other types of training were available to approximately 2 to 3 percent of the work force. On-the-job and supplier-provided training were considered to be the most cost-effective. It is interesting to note that employees paid only 29 percent of training costs, mainly for management and office skill training.

The NEI report notes the 'most striking outcome is that employers apparently see no need to train their production workers.' Only 6.5 percent of employees were identified as requiring further training with the areas of highest demand falling into the commercial, clerical, business and public administration categories.

10 The findings of the survey are more representative of large firms, as survey observations have not been appropriately weighted. Therefore, the results are indicative of the situation in large firms.

11 The demand for labour is difficult to determine because the Lao PDR still does not have a systematic way to monitor changes in the labour market. The research team has attempted to conduct a survey to obtain a rough picture of la-

Employers cited several reasons for the lack of training. Among these, the most notable were lack of time, the possibility that the worker would leave the firm after being trained, and the shortage of training centres.

3.2.4.7. Labour Market and Training Linkages

The imbalance between supply and demand in the area of skilled human resources is often traced back to the lack of adequate linkages between training systems and labour markets.[11] Under a purely market-driven system, wage rates and market forces determine the supply of training. However, this may not occur in real life, due to various market failures associated with private sector provision of education and training. Therefore, some government intervention is essential, either in the form of expanding the public education provision or the government provides incentives to stimulate growth in the private education sector. The Ministry of Labour and Social Welfare is taking initiative in the areas of employment services and counselling which serve as links between training and job opportunities.

In order to ensure closer linkages and a match between supply and demand, training programmes can be oriented towards growth sectors and the provision of entrepreneurial and business skills in order to match the foreseeable increase in demand for employment. Private sector participation in the planning of training should be encouraged in order to match the needs of businesses.

To conclude, although it is not possible to establish the statistical relationship between labour-market development, economic growth and poverty reduction, due to the lack of time series data, economic growth, wage employment expansion, and poverty reduction did occur concomitantly in the Lao PDR during the 1992/93–1997/98 period. The share of households with earnings below the national poverty line had declined to 36.3 percent from 40.2 percent over this same period. Nonetheless, it should be noted that only the share of poor households had declined, but the

Box 3.1: Training provided by employers – a finding from the Migration Survey, National Statistical Centre 2000

A migration assessment survey was carried out by the National Statistical Centre. The survey covered 43 companies in the manufacturing, construction, hotel and restaurant sectors. A total of 7,177 employees were surveyed, of which 58 percent were female (aged 15-55) and 42 percent were male (aged 14-65). The survey found that 12 firms had provided on-the-job training to their employees, five firms provided formal training, and 13 firms provided training in the form of seminars, study tours and workshops.

number of poor households had actually increased. This may be due to the fact that poor families have a higher fertility rate than that of the non-poor families.

Over this period, national-level real *per capita* monthly consumption increased by 11.4 percent, from 29,800 kip in 1992/93 to 33,191 kip in 1997/98, an equivalent of an annual growth rate of about 2.0 percent. Although the impacts of economic growth on the labour market were limited, the expansion of employment in the industry and service sectors indicated that growth had a positive effect on employment.

3.3. Labour Market and Adjustment to the Asian Financial Crisis

This section reviews and examines the consequences of the Asian financial-then-economic crisis on the Lao labour market. Specifically, this section examines the impact of the crisis on unemployment, and earnings of employees and employers.

3.3.1. Consequence of the Crisis on Employment and Income

Inevitably, most households felt the impact of the Asian crisis through the deterioration of purchasing power of the kip. Although the crisis resulted in some projects (private and public) being postponed, which resulted in increased unemployment in the affected projects, the impact of the crisis on employment in the Lao PDR was not significant. This was due to the fact that most households were self-employed farm households (85 percent of the national total in 1995) and that the share of the private sector non-farm employment in the economy was still small. Although foreign aid experienced a slight reduction during the crisis, in terms of foreign capital inflow to finance many social and economic development activities, it had a negligible adverse effect on employment.

That unemployment was not the primary issue with regard to the impact of the Asian crisis was revealed by the fact that, despite the crisis, the economy continued to show positive growth (6.9 percent in 1997, 4 percent in 1998, and 7.3 percent in 1999).

The more important issue was probably one of underemployment. As most employers expected that the crisis would not last very long, it was more cost-effective to continue employing workers on a part-time basis until the business situation returned to normal. In doing so, firms would minimise the costs associated with recruitment and training of new workers.

The impact of the Asian crisis was more significant regarding deterioration of the real income of kip-earners. The salaries of civil servants and other government workers were adjusted much more slowly to match price increases than was the case with any other category of salary-earner. The Consumer Price Index (CPI) rose by 254 percent between 1997 and 1999, while the public sector employee’s average

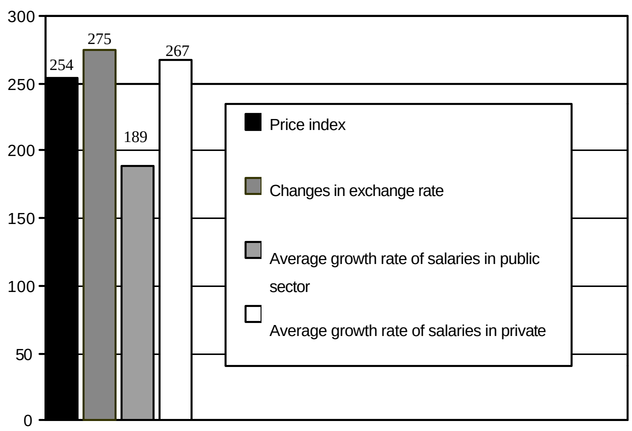
salary grew only by 189 percent over the same period. (See Figure 3.7.). Consequently, the real income of government officials is currently lower than before the crisis. Thus, government employees have suffered considerably due to the crisis, in terms of real income deterioration.

Wages in the private sector are often more flexible than those in the public sector. The average wage in the private sector grew 267 percent between 1997 and 1999, higher than that of the CPI. As a result, salary-earners in the private sector suffered only a temporary loss in real income because salaries tended to increase after prices increased. However, for the whole 1997-99 period, private sector real income increased.

In general, urban residents are much more dependent on wage income than rural residents. Consequently, urban residents in general suffered real income loss more than rural residents. In addition, urban inhabitants have much less opportunity for subsistence food production.

The self-employed, whose activities are mostly in trade and services, were also affected by the crisis. However, it is difficult to judge whether the impact of the crisis on the self-employed was positive or negative in aggregate. Most of the self-employed who were engaged in tourism-related businesses may have benefited from the crisis, as the depreciation of the kip led to a tourism boom in the Lao PDR. Also, because tourists were among the consumers, the prices of goods and services

Figure 3.7. Price Index, US Dollar-Kip Exchange Rate Change, and Growth Rate of Nominal Salaries in the Public and Business Sectors Between 1997 and 1999



Source: National Economic Research Institute

were very flexible – rising as fast as the deterioration of the kip against the US dollar. The self-employed, whose products were non-food, and whose customers were only Lao citizens, may have suffered a loss because when customers saw their real incomes declining, they spent less on non-food items.

3.3.2. Consequence of the Crisis on Migration

3.3.2.1. Domestic Migration

Due to urbanisation and industrialisation, particularly in the Vientiane Municipality, Savannakhet, Paksé, Thakhèk and Louang Prabang, rural-to-urban migration of labour has been on the increase. Although migration data are not available to enable us to analyse net rural-to-urban migration, increased settlement in urban areas by migrants is visible. Because impact of the Asian crisis on employment has been minimal, there was no clear evidence of crisis-induced migration of labour either between rural and urban areas, or between provinces. From the middle of 1999 to the beginning of 2000, there were 520 workers from seven provinces registered to work in the Vientiane municipality.[12] The number of unregistered workers is unknown. It would appear that urbanisation continued despite the Asian crisis.

3.3.2.2. Migration of Lao Workers From Abroad

Although it is uncertain about the number of Lao workers working and looking for work abroad, particularly in Thailand, it was estimated that there may have been as many as 95,000 Lao workers employed illegally in Thailand.[13]

As Thailand was hit hard by the crisis, which made employment a pressing issue, the Thai government adjusted their employment policy to protect jobs for Thai citizens by restricting foreign workers, both legal and illegal, from working in Thailand. According to a *Voice of America* broadcast on 9 August 2000, Thai officials repatriated 10,000 illegal Lao workers. About 60 percent of them were women, aged 14 to 24, who worked in nightclubs, restaurants and garment factories. They worked in Thailand because wages in Thailand were generally higher than what they would be making in Laos. However, illegal Lao workers generally earned much lower wages than Thai workers in the same jobs.

3.3.2.3. Migration of Foreign Workers

12 As labour migration data are not available from any other sources, the data reported here are obtained from labour exchange companies, all of which are owned by the government, and are responsible for facilitating labour movement in the formal labour market.

The Lao PDR has been importing a great number of foreign workers, mostly for construction work. Information from different agencies about foreign workers employed in the Lao PDR, differed widely in terms of their numbers. A survey conducted by NERI in early 2000 found that there were 6,889 foreign workers registered in all provinces of the Lao PDR in 1999. The Ministry of Labour and Social Welfare reported that 2,328 foreign workers were permitted to work in the Lao PDR in 1999 (Table 3.24). The Lao-Vietnam Cooperation Agency reported that there were about 15,000 Vietnamese workers, including illegal workers, working in the Lao PDR in 1999. About 6,500 of them were under investment project contracts with the Lao central and provincial governments. Others were independent workers, both legal and illegal. In reality, there were probably many more foreign workers than the number reported, because a large number of foreign workers did not register. Most of them were Chinese and Vietnamese, and some were Thai. Due to the crisis, which caused delay, postponement and reduced budgets for many investment projects, in-migration of foreign workers seems to have slowed.

3.3.3. Consequences of the Crisis on Consumption

While incomes of the majority of Lao people remained the same or increased slowly, rapid price increases in consumer goods and services considerably changed the consumption behaviour of households. Affected households had to spend relatively more, particularly on food, medicine and clothing. Simultaneously, they tried to reduce expenditures on non-essential items such as travel and luxury goods. Table 3.25 shows the extent to which the crisis affected household consumption behaviour in purchasing three major necessities: food, medicine and clothing.

As the urban population relies more on cash income than does the rural population, the crisis affected the urban population more than the rural population. With regards to food consumption, about 90 percent of all urban households were affected by the crisis, compared to 51 percent for rural households (Table 3.25).

3.4. Review of Government Responses to the Crisis and Labour Market

Table 3.24. Registered Foreign Workers in Lao PDR

	Country of origin of registered foreign workers	1999	2000
1	Vietnam	715	573
2	China	481	314
3	Thailand	658	132
4	Others	474	137
	Total registered	2,328	1156

Source: Ministry of Labour and Social Welfare

Development Policies

This section briefly reviews government policy implementation and actions dealing with problems associated with unemployment during the crisis. In addition to reviewing government measures, this section also briefly reviews the coping mechanism initiated by community and individual households themselves. After looking at what the government and communities have done to deal with problems during the crisis, this report reviews labour policies and some important developments in the regulatory and institutional framework which were designed to facilitate development of the labour market and handle labour-related issues.

3.4.1. Labour Policies and Actions in Response to the Asian Crisis and Community Coping Mechanisms

3.4.1.1. Labour Policies and Actions in Response to the Asian Crisis

In the context of the Asian crisis, Lao workers were affected in varying degrees by the economic downturn of Thailand because Thailand is the country's main trading partner. Not only was the workforce affected because of lack of demand, large numbers of illegal Lao workers were sent home by the Thai authorities. This in turn has put pressure on the government of Lao PDR to attract more foreign investment in order to provide jobs for the returning migrants.

Table 3.25. Percent of Households Affected by the Crisis by Type of Consumer Goods and by Area

Rank	Item	Urban	Rural	Total
1	Food	90.3 %	51.8 %	67.0 %
2	Medicine	47.3 %	22.9 %	32.5%
3	Clothing	28.7 %	28.9 %	28.8%

Source: National Statistical Centre 1999

The most important step taken by government to keep employment stable in labour-intensive industries has been to increase investment incentives. To avoid a glut of workers in non-agricultural sectors, the government also diverted some workers to agriculture and public works projects. During the crisis, the government allocated a significant budget for irrigation schemes. With more water available, farmers were able to increase production and therefore employ more people. Increased government spending on irrigation schemes expanded rice growing areas, and 1999, rice production achieved a remarkable 8.2 percent increase.

Through the Lao Chamber of Commerce and the Ministry of Industry and Handicrafts, the government has promoted labour-intensive industries, especially those producing garments and construction materials. Additional incentives were given to garment factories to help them mobilise more capital and hire more labour so they could produce more for overseas markets. Also, the government has set up a simple custom-clearance system for imported materials and reduced unnecessary

steps for garment exports by simplifying the documentation procedures. A number of infrastructure projects, especially road construction and urban infrastructure development, were implemented and absorbed a considerable amount of domestic workers.

The government has also implemented a number of measures to stabilise prices and the kip through savings mobilisation, fiscal reform and austerity measures. Although the government began to reduce its expenditures in several areas, the state budget for social and labour items remained high. In addition, the government has allocated more resources for job creation in the civil service and for vocational training to absorb young people who have completed secondary school. In the last two years, a few training centres with goals to promote traditional handicrafts have been established. They include training centres for weaving (under the sponsorship of JICA from Japan), and for silver and gold-smithing (under the sponsorship of GTZ from Germany). Another important measure was the implementation of a social insurance system especially for civil servants and employees in SOEs.

Finally, the government has revised the old decree on the Imposition of a Minimum Wage Rate and shifted it up to 96,300 kip from the original value of 36,000 kip. However, average real income is still below that in the period before the crisis began.

3.4.1.2. Coping Mechanisms Undertaken by the Community and Individual Households

Individual households and communities have also sought ways to alleviate the effects of the crisis. Some pre-schools and primary schools have organised school buses to reduce transport costs for the parents. Celebrations and related expenditures in villages have been scaled back in both urban and rural areas.

Civil servants and employees in the service sector have now decided to have lunch in the office instead of going home for lunch. Some households have given up consumption of some non-essential goods and services.

It has been more difficult for people living in urban areas, especially landless wage earners, to compensate for their loss of purchasing power because the economy is monitised and they have limited opportunities to increase their earnings.

Government efforts to stabilise the economy and promote employment, together with efforts made by private enterprises, individual households and communities have achieved satisfactory results. Overall the crisis has had limited impact on the Lao PDR, thanks to the predominance of the agricultural sector, to foreign assistance, to government measures and to private initiatives. All these have undoubtedly eased much of the pressure created by the crisis.

3.4.2. Review of Labour Policies and the Institutional Framework for Labour-market Development

With about 85 percent of the Lao population (Population Census 1995) depending on semi-subsistence farming, productivity per agricultural worker, and hence, average income *per capita* is quite low. In view of this, it has been the government's policy to develop the economy so that agricultural output grows, while the labour required in the agricultural sector gradually declines. At the same time, the government has been promoting expansion in the non-agricultural sector. As discussed previously, the education and skill levels of the Lao labour force do not meet the requirements for modern industrial and service employment. The private sector labour market is still relatively new in Lao PDR. Therefore, the government has to develop new laws, rules, regulations, and institutions to facilitate the development of the labour market and to upgrade the quality of the labour force. In the past 10 years, a considerable amount has been achieved in this area. These achievements include the following:

- Article 20 of the national constitution guarantees all Lao citizens freedom of choice in the selection of employment and residency. This initially allowed an informal labour market to emerge, and it seems to have been functioning well.
- Regulation of the labour market has been achieved to a certain level. With the establishment of the Ministry of Labour and Social Welfare in 1993, efforts have been made to promote the labour market, and labour laws have been adopted and enforced. These achievements are suitable for a labour market at the early stage of economic development, as is the case in Lao PDR.

The following selected laws and government regulations have been gradually introduced and constitute an important legal framework for the whole country:

- Prime Minister's Decree on the Social Security Law for Civil Servants (Nov. 1993)
- Labour Law (approved in July 1994 by the National Assembly)
- Prime Minister's Decree No. 749/MLSW on Use of Foreign Labour (Ministry of Labour and Social Welfare, March 1999)
- Prime Minister's Decree on Imposition of a Minimum Wage Rate 1997 and 2000.
- Prime Minister's Decree on a Social Security Law for Employees (Dec. 1999)
- Cooperative activities among labour-related agencies have been developed

and have achieved some level of labour-market regulation. At least three parties are involved:

(1) The Department of Labour, of the Ministry of Labour and Social Welfare, acts as a line ministry to implement government labour policies.

(2) The Migration Office of the Ministry of Internal Affairs, together with its Local Migration Offices at the district and village level are responsible for the registration and monitoring of foreign workers in Lao PDR. According to Article 10 of the Decree on Importing and Using Foreign Labour, all companies that import and use foreign labour have to register their foreign employees within 30 days after entry into the country. The Migration Office also provides inspectors who work closely with the related authorities. Unregistered foreign employees have to pay US$200 each time they are fined. An illegal (or unauthorised) relocation of foreign workers or deployment of foreign workers in any position other than the position described on their application form, is forbidden by law.

(3) The Lao Trade Union is responsible for problems relating to employment conditions and provisions for workers. More importantly, the Lao Trade Union is involved in dispute resolution between employers and employees. Recently, the Lao Trade Union has set up a Health Centre, which deals with hygiene and gives medical certificates and advice on diseases that may be associated with employment.

- The government has provided an effective employment scheme for women. Recently, the Lao Women's Union was entrusted with implementation of a number of development projects. Most of the existing regulations on labour explicitly emphasise the role of female workers and gender issues.
- The establishment of the first labour exchange company in Vientiane in early 1994, was a landmark for the labour market in the Lao PDR. Labour-providing companies are very important in terms of management of the foreign labour force. According to Article 8 of the *Decree on Importing and Using a Foreign Labour Force*, the government allows only labour-providing companies to deal with the importation of foreign workers. These companies operate under supervision of the Lao Department of Labour.
- Contracts for foreigners are limited to 12 months, with extensions possible for 6 to 12 months at a time. Any relocation of a foreign worker must be made with the authorisation of the Labour Department.
- The government has achieved much success in implementing labour-market legislation and maintaining strict ILO child labour rules and other relevant

regulations, especially concerning work hours (part-time, over-time etc.).

Although much has been accomplished, the implementation of labour policies has not been fully realised. There are a number of issues that deserve more careful consideration. These include:

- The government has emphasised that human resources development is a national priority. However, it lacks the necessary resources to expand and improve the quality of educational and vocational centres, especially for new high school graduates, although most of the provincial labour authorities have already provided land for such purposes.
- Government incentives for promoting private colleges and training centres seem to fall short of expectation. Private colleges still request more government support in order to develop their libraries and they would like corporate taxes eliminated instead of just reduced.
- In many cases, regulating institutions are not flexible and are unaware of the problems their policies and regulations create. Some policies have not met public expectation and regulating agencies appear to have wasted their time and resources in trying to implement policies as directed by higher authorities. Implementing agencies often lack the staff and resources needed to implement policies and ensure that they are achieved.
- Some foreign direct investment firms have failed to continue employing the existing workforce of the state-owned enterprises they acquired as they had promised when the privatisation process began in the early 1990s.
- Some foreign companies did not train Lao employees as described in their business plan. Instead, they imported foreign workers.
- There has been insufficient cooperation between government agencies, private companies and the institutions that use foreign labour. This has caused some difficulties in monitoring foreign workers.
- The current remuneration system is not reasonable. There is a big gap between the salary levels of civil servants and employees in SOEs, as well as the salary levels of those working for international organisations. This has resulted in a brain drain (of qualified civil servants) out of the public sector.
- The current pension scheme and compensation systems do not function properly. The current pension rate paid to pensioners is too low to cover their actual cost of living. In addition, the documentation procedures required and the payment systems are difficult to understand and take a very long time to process.

- The government lacks the means of disseminating information to the general public regarding available jobs.

3.5. Conclusions and Recommendations

Although it is not possible to establish the statistical relationship between labour-market development, economic growth and poverty reduction, due to the lack of time series data, economic growth, wage employment expansion, and poverty reduction did occur concomitantly in the Lao PDR between 1992/93 and 1997/98. The share of households with earnings below the national poverty line declined to 36.3 percent from 40.2 percent during this period. Nonetheless, it should be noticed that only the share of poor households declined – the number of poor households actually increased. This may be due to the fact that poor families have higher fertility rates than the rest of the population. Over this period, the national level of real *per capita* monthly consumption increased by 11.4 percent, from 29,800 kip in 1992/93 to 33,191 kip in 1997/98, an equivalent of an annual growth rate of about 2.0 percent. Although the impact of economic growth on the labour market was limited, the expansion of employment in the industry and service sectors indicates that growth had a positive effect on employment.

The labour market in Lao PDR has developed to a certain extent, in terms of job creation, income generation and human resources development. However, labour supply and demand are not balanced due to shortages of skilled labour. Thus, foreign workers are required to fill this gap. To deal with this problem, the government has made development of human resources a national priority. In conjunction with enhancing general education from primary school to university, technical schools and centres for short-term training are urgently required in each province.

The Lao labour market has suffered from the recent Asian crisis, particularly in terms of declining real incomes. Government employees and the self-employed have been particularly hard hit. However, because the private sector in Lao PDR was relatively small, impact of the crisis has not been as serious as it has been in some neighbouring countries.

Some of the policy measures used to offset the impact of the crisis have, to a certain extent, been implemented successfully, particularly in terms of raising wages. The minimum wage has been revised to make it more realistic. As a result, the legal minimum monthly wage was raised in 2000 from 36,000 kip to 96,000 kip. However, the lowest monthly wage found in the private sector is still higher than the minimum legal requirement.

3.5.1. Policies Needed for Sustainable Economic Development

An important issue, which calls for attention, is an insurance system for employees. Although employees in the business sector generally earn more than their public sector counterparts, they still lack an insurance system needed for financial support during unemployed periods. Employees in the public sector are more secure in terms of getting permanent salaries and pensions, or some social welfare. Since the beginning of the implementation of the NEM, the assumption of a link between the labour market, economic growth and poverty reduction has been identified as the logical way to achieve economic development. Therefore, in order to strengthen the Lao workforce and make the labour market in the Lao PDR more dynamic, a comprehensive system for measuring the impact of development must be implemented to ensure achievement of desirable socio-economic results.

The results of this study show that the government has to make more effort to develop a better-educated and trained work force and a better-functioning labour market in order to meet the changing needs of the economy. This is particularly true in the context of the ASEAN Free Trade Agreement.

In conclusion, the authors of this study would like to make the following recommendations:

- Urgent action is necessary in order to ensure that providers of education and training impart the skills required by employers. It is equally important to improve information flow and increase contacts between training providers and business, to ensure that students have the skills and the attitudes required by employers. Market-determined wages are also necessary to give workers the incentive to acquire skills and to move between occupations.

- Most necessary for long-term growth in Lao PDR are measures to improve the quality of primary education and vocational training. It is also very important to have the involvement of enterprises in vocational training programmes to ensure that programmes will meet their needs. One of the most important measures is one that facilitates women's access to education, because education helps reduce entry barriers. Higher levels of education for women mean better health, better nutrition, and better education of children, all factors that contribute to long-term economic growth and poverty reduction. To ensure sustainable development, relevant policies and a comprehensive development strategy, which encourages labour-market development, are needed. The following are points for consideration:

- Changing the way of thinking from traditional labour-force formation to market-oriented development of the labour market in order to meet economic expansion requirements and economic integration in terms of a regional division of labour.

- Facilitating cross-province movement of workers.
- Making strategic links between job creation and income generation nationwide in order to bring the primary benefits to the poorest, who have extremely limited job opportunities.
- Supporting private initiatives in human resource development through expansion of private colleges and private training centres.
- If foreign labour must be used, develop training programmes whereby employers are obligated to use foreign skilled workers as trainers. This will increase the skills of Lao workers. Fiscal and other incentives need to be used in concert with sanctions and regulations.

Within government agencies, there is also a need for substantive changes which facilitate the free flow of information and movement of labour. These changes include:

- Establish an information system on labour supply and demand. This could be developed by the Lao Labour Exchange Company.
- Make practical working definitions of labour force terminology.
- Establish a nationwide labour force monitoring system. This should include employment data by sector, unemployment data, migration data (in, out and cross province), periodic data on real wages (much like that of the current price data gathered), and disaggregated data according to age cohort, gender, and ethnicity.
- Improve educational quality, in terms of teaching curricula, and provide more incentives for teachers.
- Strengthen the capacity of MOLSW, especially its provincial offices, in order to assist the central agency with regards to the gathering of meaningful employment data and supervising the implementation of polices, laws and regulations. MOLSW should also help to ensure domestic labour mobility and manage labour-related issues in the provinces.
- Upgrade the existing workforce by providing various options for job training, including on-the-job training, training in local training centres and technical colleges, and overseas training.
- Offer specific vocational training with the philosophy of "learning-by-doing" for workers in rural areas who have completed elementary school. There should be intensive basic training for the practical jobs urgently required to meet development needs (truck drivers, mechanics, construction workers, etc).

Appendices

Appendix 3.1. Macro-economic Indicators, 1991-1999

Indicators/ Years	1991	1992	1993	1994	1995	1996	1997	1998	1999
Real GDP growth	4.0%	7.0%	5.9%	7.7%	7.5%	6.9%	6.9%	4.0%	7.3%
Nominal GDP in Billion kip	722	844	951	1 108	1 430	1 726	2 201	4 240	10 372
Nominal GDP *per capita* (US$)*	242	270	296	336	379	395	361	259	287
Inflation rate (end year)	10.4	6.0	9.0	6.8	25.7	7.3	26.6	141.9	86.5
Liquidity (end year, in Bill. Kip)	51.3	76.5	125.8	166	193.3	244.8	406.0	856.9	1545.4
Money	28.2	35.2	52.2	61.3	67.2	75.6	79.9	170.0	216.9
Quasi money	23.1	41.3	73.6	104.7	126.1	169.4	326.1	696.9	1328.5
Liquidity growth (end year, in %)	9.4	49.1	64.4	32.0	16.4	26.6	65.8	111.1	80.3
Money	2.5	24.8	48.3	17.4	9.6	12.5	5.7	112.8	27.6
Quasi money	19.1	78.8	78.2	42.3	20.4	34.3	92.5	113.7	90.6
Exchange rate (end year, buying rate)									
Parallel market (in kip per US$)	727	720	720	726	936	978	2060	4534	7614
Official market (in kip per US$)	711	715	716	718	920	930	2023	4182	7578
Official development assistance inflow	132.6	134	181.3	188.7	207.2	212.2	258	197.9	275
Long-term loans	47.1	71.1	77.8	54.3	82	183.3	161	124.3	44.7
Grants	85.5	62.9	103.5	124.7	109.4	82	97	73.6	230.3
Foreign investment license approved (in	1556	328	163	2506	1224	1293	113	98	108
Government expenditure (in Bill. Kip)**	151.1	192.1	120.9	149.2	178.6	220.1	263.0	507.6	1 101.9
Government revenue (in Bill. Kip)**	74.7	93.0	194.9	273.5	311.5	376.1	525.3	1 078.1	1 939.7
Budget deficit (in Bill. kip)**	-76.40	-99.10	-74.07	-124.36	-132.89	-155.95	-262.28	-570.50	-837.85
Budget deficit as a % of GDP	**10.6**	**11.7**	**7.8**	**11.2**	**9.3**	**9.0**	**11.9**	**13.5**	**8.1**
Gross international reserve of banking									
(end year, mill. US$)	57.2	81.2	150.9	158.5	191.5	283	195.7	220.5	257.2
BOP current deficit (in million US$)									
Excluding transfers	110.5	104.0	135.3	197.0	235.0	305.0	282.0	182.5	145.1
Including transfers	25.0	41.1	31.8	72.5	126.0	224.0	184.0	54.9	75.0
BOP deficit as a % of GDP	12.87	10.12	11.47	14.85	15.22	17.47	15.13	10.44	11.28
Trade Balance deficit in million US$	-118.0	-132.0	-192.0	-258.7	-278.0	-458.0	-331.0	-212.0	-213.7
Imports in million. US$	215.0	265.0	432.0	564.1	589.0	690.0	648.0	553.0	524.6
Exports in million. US$	97.0	133.0	240.0	305.4	311.0	232.0	317.0	341.0	310.9

Note: * Using the average rate of Kip-Dollar exchange rate. ** Beginning in 1992, the fiscal year was from 1 Oct through

Appendix 3.2. Visible Urban Underemployment in 1994 by Economic Sector and

	Total (%)	Males (%)	Females (%)
Total	3.5	4.1	2.8
Agriculture	6.4	6.9	5.7
Mining	0.0	0.0	0.0
Manufacturing	3.4	3.6	3.4
Utilities	0.0	0.0	0.0
Construction	8.2	8.2	8.3
Trade	3.1	4.2	2.5
Hotels & restaurants	3.4	1.9	4.2
Transport & communications	2.9	3.1	0.0
Finance	1.2	1.8	0.0
Business services	1.4	2.0	0.0
Community, social	3.8	4.2	3.1

Note: Visible underemployment comprises those workers who worked less than 40 hours in the reference week and wanted to work more, based on total employment in the respective activities. Source: Computed from Annexes C.6 and

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Chapter Four

Growth, Poverty Reduction and Adjustment to Crisis – Thailand

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4.1. Introduction

4.1.1. Objectives, Scope and Research Methodology

Thailand experienced rapid economic growth of almost 8 percent from the mid-1980s to the early 1990s. This miracle ended in July 1997 when the economy was struck by the Asian financial crisis. The crisis had consequences for the entire global economy. Labour markets were severely effected. Thailand suffered from a fall in demand at home and in the region: employees were laid-off, wage employment fell, wages and working hours were cut.

The 1997 Asian financial crisis was the biggest economic and social shock to befall the region, and Thailand in particular, since the Great Depression. According to the Asian Development Bank, in a little over a year, the five countries directly hit – Thailand, Indonesia, the Republic of Korea, Malaysia and the Philippines – suffered from an economic loss of not less than 30 percent of their GDP. As a result, unemployment and social problems became critical (Siamwalla 1999b).

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Objectives: The objectives of this research were: (a) to explore the links between labour markets, growth and poverty reduction, in Thailand; and, (b) to examine the impact of the Asian financial crisis on the labour market in Thailand.

Research methodology and scope: This study was based on a series of sample surveys of the economically-active population, conducted by the National Statistics Office (NSO), as well as other secondary socio-economic data from both official and unofficial sources. Some informal discussions were also held with key informants to add insight.

The methodology employed involved "shift-share" analyses of age-sex structure and changes of demographic and economic characteristics of the labour force, such as education and wages or income. The analysis of the implications of the crisis on the labour market is relatively anecdotal and inferential. Because this study is based mostly on the Labour Force Surveys conducted by the National Statistics Office, the definitions of labour force, employment, unemployment, underemployment and other related terms are those used in the surveys.

This study consists of three major parts, as well as a brief review of the economic setting of Thailand, which serves as a background for understanding the Thai labour market and its possible implications for the Southeast Asian Transitional Economies (SEATEs). Following this introduction (Section 4.1), Section 4.2 deals with labour markets, growth and poverty reduction; Section 4.3 with labour markets and adjustment to the crisis in Thailand; and, Section 4.4 with policy for overcoming the crisis, promoting growth and reducing poverty. A conclusion (Section 4.5) is given at the end of the report.

4.1.2. The Economic Setting, Factor Endowment and Comparative Advantage

To understand the Thai labour market and its linkage with the SEATEs, it is necessary to review the Thai economy in aggregate. This section offers a brief review of the economic setting of Thailand, with respect to its economic structure, exports, and comparative advantage.

4.1.2.1. Factor Endowment

Thailand has an overall area of roughly 514,000 square kilometres. Approximately 58 percent of the land is arable, with the rest being forest and savannah. Thailand has a short coastline on the Indian Ocean and a long Pacific coastline. The climate is tropical and humid, with an average annual temperature of 29 degrees Celsius. There are three main seasons: hot, rainy and cool. The population of Thailand in 2000 was estimated at 62.2 million, with the labour force at about 33 million. The adult literacy rate was 93.5 percent, though the majority of the employed persons (69.4 per-

cent) had no more than six years of education.

4.1.2.2. Production

For decades prior to the crisis, Thailand experienced significant economic growth driven by dramatic growth in exports. During that period, there was a major structural change in both production and exports, from agriculture to industry, and from labour-intensive to more capital-intensive production. Although agricultural production continued to increase from 1970 to 1998, its share of total GDP tended to decrease. In contrast, production in the manufacturing sector increased both in terms of its share and value. The share of production in the wholesale and retail trade sector decreased between 1970 and 1988, but started to rise again in 1989. The share of production in the service sector was between 12 to 15 percent during the same period.

In 1970, production in the agricultural sector had the highest share of GDP (25.9 percent), while the share of production in the wholesale and retail trade, manufacturing, and service sectors accounted for 18.4 percent, 15.9 percent, and 11.4 percent of total GDP, respectively. Manufacturing production, both in terms of value and its share of total GDP, surpassed the agricultural sector for the first time in 1981. In spite of a slight increase in share of GDP between 1994 and 1998, agriculture's share was still far below that of the manufacturing sector. In 1998, the manufacturing and agricultural sectors' share of total GDP accounted for 29.2 percent and 13.4 percent, respectively, while those of the service sector and the wholesale and retail trade sector were 15.3 percent and 13.8 percent, respectively.

While there has not been a major change in production in the agricultural sector, there has been a slight change in the major products produced. In 1970 beverages, leather and leather products, food, tobacco, and petroleum products were the top five manufactured products. In 1980 only food, beverages, and tobacco remained in the top five, as textiles and paper became more significant. In 1998, the top five manufactured products were wearing apparel (excluding footwear), petroleum products, machinery, food, and electrical machinery and supplies, which altogether accounted for approximately 45 percent of total production in the manufacturing sector.

4.1.2.3. Exports

Thailand's exports between 1970 and 1998 experienced a significant structural change: exports of manufactured products increased dramatically, while the decline in agricultural exports was equally dramatic. In 1970, exports of agricultural products accounted for 67.5 percent of total exports, while exports of mining products and manufacturing were 13.9 and 6.1 percent, respectively. In 1980, the share of exports of agricultural products dropped significantly to 46.9 percent, and mining

products to 11.6 percent. In contrast, the share of exports of manufactured products surged to 32.3 percent in the same year. It should be noted that a decrease in the share of exports of agricultural products does not mean a fall in value of these products. The decrease rather reflects a significant increase in the value of exports of manufactured products and also a dramatic rise in total exports.

In 1998, the share of agricultural exports decreased to 10.2 percent, while the export proportion of manufactured products increased to 82.4 percent.

The major manufactured products were textiles, computers and parts, integrated electrical circuits, and electrical appliances. Similar to the structural change in export products across sectors, there had also been a structural change in export products within the manufacturing sector. While the value of exports of labour-intensive manufacturing, such as textiles and footwear, rose slightly from 202,707 million baht in 1991 to 348,440 million baht in 1998, exports of technology-intensive manufactured products dramatically increased from 238,955 million baht to 1,174,673 million baht during the same period. Such a dramatic increase was the result of a significant growth in exports of almost all products in the technology-intensive manufacturing sector, especially computers and parts, integrated electrical circuits, electrical transmitters, plastic products, and vehicle parts.

4.2. Labour Markets, Growth and Poverty Reduction (in Thailand)

Labour markets, economic growth and poverty are closely interrelated. Labour is one of the three major factors of production. Thus, its size, distribution and quality contribute to economic production and growth. Further, the relative size of the economically-active population and the rest of the population (so-called dependants), is positively related to savings and investment, which in turn, are positively related to gross national product. On the other hand, employment is a major source of income, and thus is an important indicator of poverty. As such, few would deny that the labour market is a key to the success or failure of the development process – both economic growth and poverty reduction – and it is imperative to understand its structure and change.

4.2.1. Structure of the Labour Market and Trends

The analysis of the labour market basically involves measurement and analytical description of (a) the size of the labour force and its distribution by age, sex, level of education, region, and other characteristics deemed relevant from the standpoint of participation in economic activity – the nature and characteristics of the supply of labour, and (b) the size of the labour force that is employed and unemployed (or underemployed) and its distribution by industry, occupation, age, sex, education,

and other – the nature and characteristics of the demand for labour (Peitchinis 1975:89). Because the present structure of the labour market may have been distorted due to the recent economic crisis, to obtain a better understanding of the labour market structure, its recent trends also need to be reviewed.

4.2.1.1. Seasonality and Employment Data

At the outset, to understand the nature of data on the Thai labour market, it should be emphasised that employment in Thailand is highly seasonal. A single set of data on the labour market in one season does not represent the pattern of the labour market in another. This fact should be kept in mind in the use and interpretation of Thai employment data. In this connection, the labour force surveys in Thailand have been conducted quarterly, in February and May, which are dry or slack agricultural seasons, and in August and December, which are wet or harvesting seasons. For reasons of space and simplicity, this study uses data of two major seasons, the first round (February) to reflect the dry season, and the third round (August) to reflect the wet or peak agricultural season. In some cases, only the data of the peak agricultural season (August) is used.

There is also a marked seasonal pattern to unemployment. It is lowest in August, the peak agricultural season. The levels of unemployment in February are high relative to August. With the use of data from two major rounds of the survey, other aspects of seasonal employment will also be reflected in later discussion.

Labour force: The labour force, estimated at 33.2 million in 1999, was growing at declining rates (annual averages of 3.0 percent between 1980 and 1985, 2.9 percent between 1986 and 1990, and 1.5 percent between 1991 and 1995) mainly because of declining birth rates. With the population growth rate at about 1 percent *per annum* from 1995 to 1999, the labour force grew very slowly from 33 million in 1995 to 33.2 million in 1999, with an annual growth rate of 0.12 percent (Table 4.1).[1] In August 1999, the Thai labour force was about 33.2 million,[2] or about 53.6 percent of the total population of 61.9 million. During this period, the size of the labour force was largest in August 1997 (33.6 million), when the economy started to collapse, and decreased afterwards to the present level.

During slack seasons, the labour force increased from 31.9 million in 1996 to 32.8 million in 1999. The difference in the size of the labour force between the slack season and the peak season was not as high as the difference between the employment levels between the two seasons. The main reason was the different size of

1 Aside from the slow rate of population growth, the slow growth of the labour force could be due to the extension of educational services and enrolment, as well as economic slowdown.

2 Table 4.1 distinguishes between "total labour force" and "current labour force" by

Table 4.1. Population by Employment Status, 1995-1999 (thousands of people)

Labour Force Status	**Feb-95**	**Aug-95**	**Feb-96**	**Aug-96**	**Feb-97**	**Aug-97**	**Feb-98**	**Aug-98**	**Feb-99**	**Aug-99**
	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total
Total Labour Force	31,348	33,002	31,898	32,750	32,000	33,561	32,143	33,353	32,810	33,210
Male	17,527	17,962	17,843	17,966	17,952	18,310	18,101	18,327	18,383	18,314
Female	13,821	15,040	14,056	14,784	14,048	15,250	14,042	15,026	14,427	14,897
1. Current labour force	29,779	32,950	30,741	32,586	30,964	33,455	30,892	33,276	31,740	33,073
1.1 Employed	29,055	32,575	30,099	32,232	30,266	33,162	29,413	32,138	30,025	32,087
Underemployed (< 20 hours / week)	490	644	638	581	544	721	1,477	938	863	954
% of total labour force	*1.6*	*2.0*	*2.0*	*1.8*	*1.7*	*2.1*	*4.6*	*2.8*	*2.6*	*2.9*
% of current labour force	*1.6*	*2.0*	*2.1*	*1.8*	*1.8*	*2.2*	*4.8*	*2.8*	*2.7*	*2.9*
1.2 Unemployed	724	375	641	354	698	293	1,479	1,138	1716	986
% of total labour force	*2.3*	*1.1*	*2.0*	*1.1*	*2.2*	*0.9*	*4.6*	*3.4*	*5.2*	*3.0*
% of current labour force	*2.4*	*1.1*	*2.1*	*1.1*	*2.3*	*0.9*	*4.8*	*3.4*	*5.4*	*3.0*
2. Seasonally-inactive	1,569	52	1,158	164	1,036	106	1,251	77	1,070	137
% of total labour force	*5.0*	*0.2*	*3.6*	*0.5*	*3.2*	*0.3*	*3.9*	*0.2*	*3.3*	*0.4*
Unemployed + seasonally	2,293	427	1,799	518	1,734	398	2,730	1,215	2,786	1,123
% of total labour force	*7.3*	*1.3*	*5.6*	*1.6*	*5.4*	*1.2*	*8.5*	*3.6*	*8.5*	*3.4*
Not in the labour force (age	13,588	12,194	13,745	13,119	14,335	13,238	14,889	13,913	14,924	14,764

Source : Various Labour Force Surveys the by National Statistics Office

"the seasonally-inactive labour force" which stayed out of the labour force during the slack season (Table 4.1).

Employment: In the peak season in 1999, employment was 32.1 million, about 2.1 million more than that in the slack season. This level was a little lower than the levels in the peak season of the previous three years, especially in August 1997 when it was 33.2 million (Table 4.1). The employment level in the slack season demonstrated a similar pattern, except in February 1998 when the level was lowest.

In 1999, about 3 percent of the labour force were unemployed in the peak season and 5.2 percent in the slack season. If the seasonally-inactive labour force were counted as being unemployed, the proportion of the unemployed labour force would become 3.3 percent and 8.5 percent in the high and slack season, respectively. About 1 million persons were underemployed (working less than 20 hours per week) in the high season, compared to 0.9 million underemployed in the slack season.

Table 4.2. Female Labour Force and Employment, 1999 (Rounds 1 and 3)

	Round 1 (Feb.)	Round 3 (Aug.)
	F/M ratio	F/M ratio
A. Total population	1.0	1.0
B. Total labour force	0.8	0.8
1. Employed	0.8	0.8
Underemployed (work < 20 hr/wk)	1.1	0.9
2. Unemployed	0.9	0.8
3. Seasonally inactive labour force	2.2	2.0
C. Not in the labour force (age 13+)	1.8	1.7

Source: National Statistics Office, Labour Force Survey 1999

The remaining 46.4 percent of the population (28.7 million people), were not in the labour force. Out of that number, 13.9 million were less than 13 years of age and 14.8 million were 13 and over (working age).[3] The working-age population included 6.2 million students (41. 9 percent), 3.7 million household workers (25.2 percent), and 3.8 million who were too old or too young to work (25.7 percent).

Female labour force: The female labour force in the same year was 14.4 million, compared to the male labour force of 18.4 million. As indicated by the sex ratio in Table 4.2, the size of the female labour force was about 0.8 that of the male labour force. The size of female employment was also 0.8 that of male employment, while for underemployment, women's was 1.1 that of men's. For unemployment, in the slack season the number of unemployed women was smaller than that of men, but women's unemployment was higher than men's in terms of rate, reflecting a larger risk of unemployment for women. In the peak season, however, female unemployment was smaller than that of male unemployment, both in terms of absolute numbers and rate, This was due to increased demand for female labour during the peak agricultural season. The proportion of female/male employment was higher in the peak season from 1995 to 1999 (44.6 percent in slack seasons and increasing to 45.6 percent in high seasons, except in 1995).

4.2.1.2. Labour Force Participation Rate

Size of population is the first and most important determinant of the size of the labour force, but the relative size of the labour force and population, the so-called labour force participation or activity rate, can vary considerably.[4] Crude participation rates can vary for a number of reasons, but mostly due to differences in age structure and the participation of women in the labour force. Generally, it has been observed that the overall participation rates of males, especially in the prime age groups, are less sensitive to socio-economic variation compared to those of females.[5] It has also been observed that the overall male participation rate is adversely related to the level of development.

The age-sex-specific participation rates of the Thai labour force between 1989 and 1999 are depicted by Figure 4.1 and Figure 4.2. Because the patterns of the participation rates were similar between the data of round one and round three, with the levels of the rates in round three generally a little higher, only the rates in round three will be discussed.

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3 The official minimum working age of hired workers was raised to 15 years on 19 August 1998.

4 The ratio of the total labour force to total population is called "crude participation rate", while the ratio of the labour force of a particular age group and sex to the population of the corresponding age group and sex is called "age-sex-specific

Figure 4.1. Labour-force Participation Rate by Age Group, Round 3 (Male)

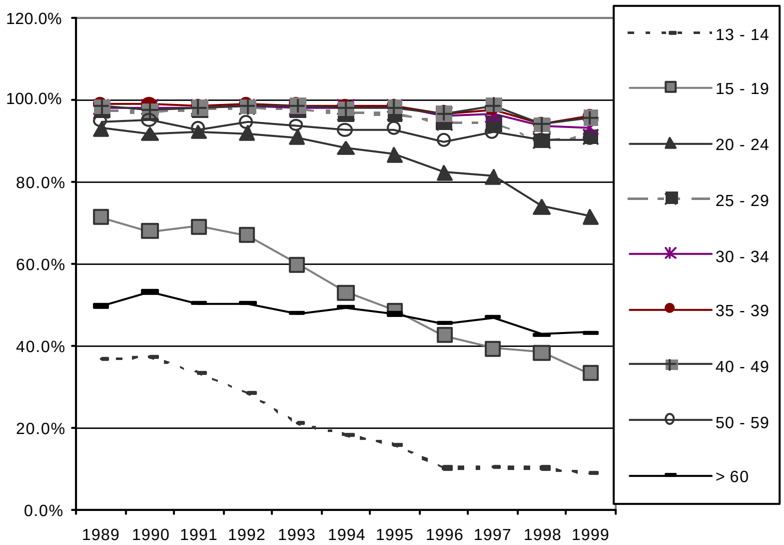
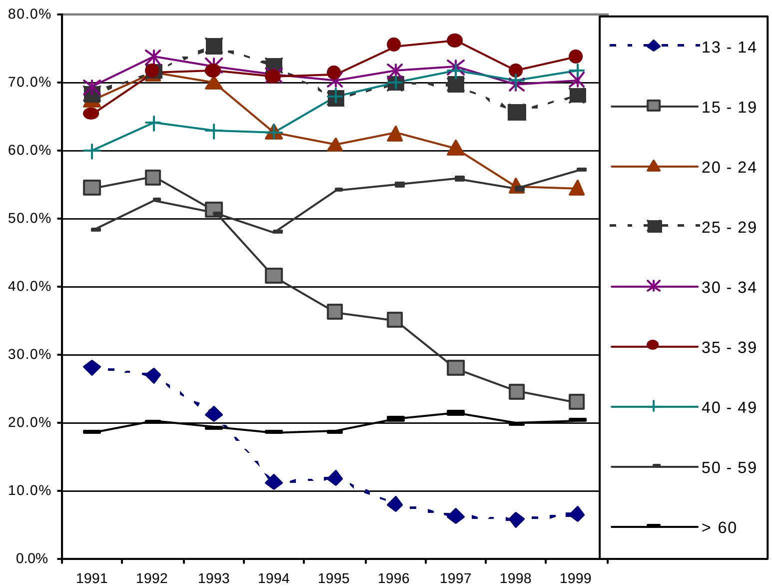


Figure 4.2. Labour-force Participation Rate by Age Group, Round 3



Source: For both Figures 4.1 and 4.2 — Thailand Development Resource Institute

The male participation rate for the group aged 25 to 59 was relatively high (90 percent and more in most cases) and stable from 1989 to 1997. It then declined from 1997 to 1999. The rates for males in the group aged 15-19 years and 20-24 years had been decreasing slowly, mainly due to the expansion of the educational system, while the rate of those in the group aged 13-14 years had been decreasing and approaching zero (becoming less than 10 percent) in 1998 and 1999. This was likely due to the minimum working age being 15 years, as stipulated by the 1991 Labour Protection Act, as well as increasing school enrolment.[6]

The participation rates of Thai women were relatively high, especially for those in the age group 20-49 (in the range of more than 80 percent from 1989 to 1990). The rates for this age group declined very slowly to the level of 70-80 percent in 1996, and declined further, especially for those aged 20-24 years (to 62.5 percent in 1999). The rate of participation for the group aged 15-19 years decreased significantly from 72.2 percent in 1989 to 26.3 percent in 1999, mainly due to the expansion of education.[7] Similarly, the rates for males aged 13-14 years had been decreasing rapidly for the same reason.

4.2.2. Employment Structure and Trends

4.2.2.1. Structure of Employment by Industry and Trends

In 2000, in the peak season, almost one-half of total employment (48.5 percent) was in agriculture. In employment sectors other than agriculture, 15.2 percent were in services, 14.8 percent in commerce, 13.7 percent in manufacturing, and 4 percent in construction. In the dry or slack season, the proportion of employment in agriculture decreased to 41.8 percent, while employment in the non-agricultural sector mostly increased, with the share of services at 16.3 percent, commerce at 16.1 percent, manufacturing at 16.2 percent, and construction at 5.2 percent.

During the past five years, in spite of the economic crisis, employment in manufacturing was relatively stable, accounting for about 16 to 17 percent of total employment during the first half of the year (slack season) and around 13 percent

6 Effective 19 August 1991, the Labour Protection Act, section 44 stipulates that an employer is prohibited from hiring workers under 15 years of age. In 1999, however, there were 208,879 workers under 15 years of age out of which 37,791 or 18.1 percent were wage employees. The Child and Youth Survey revealed that over three million more students (pre-primary through secondary levels) attended school in 1997 than in 1992 (World Bank 1999c:10)

7 Between 1990 and 1994, enrolment rates for lower secondary education (corresponding with the population aged 12-14) increased from 37.2 to 59.7 percent, for upper secondary education from 22.5 percent to 31.5 percent, and for higher education from 8.1 percent to 22.3 percent. In 1997, the government be-

during the second half of the year (high season). Employment in services and construction was less stable during this period. In the first half of the year, employment in services increased from 14.3 percent in 1995 to 16.3 percent in 1999, while in the second half of the year it increased from 12.7 percent in 1995 to 15.2 percent in 1999. This phenomenon reflects the capacity of the service sector to absorb labour during hard economic times. In construction, the employment proportion declined from 10.4 percent and 6.7 percent in 1996 (during the slack season and the peak agricultural season, respectively) to 5.2 and 4.0 percent in 1999.

The trends of employment structure by industry in the longer term (between 1977 and 1999), are illustrated by Figure 4.3. The trends reflect the nature of the

Table 4.3. Employment Structure by Industrial Sector and Trends, 1995-

	1995		1996		1997		1998		1999	
	Round 1	Round 3	Round 1	Round 3	Round 1	Round 3	Round 1	Round 3	Round 1	Round 3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	40.8	52.0	40.4	50.0	39.4	50.3	39.6	51.3	41.8	48.5
Non-agriculture	59.2	48.0	59.6	50.0	60.6	49.7	60.4	48.7	58.2	51.5
Mining and	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.2
Manufacturing	16.7	13.4	16.5	13.4	16.5	12.9	16.7	13.0	16.2	13.7
Construction and	9.1	5.7	10.4	6.7	9.8	6.1	6.9	4.0	5.2	4.0
Electricity, gas,	0.7	0.5	0.5	0.4	0.6	0.5	0.6	0.6	0.6	0.5
Commerce	14.7	12.6	14.8	13.5	15.2	13.9	16.1	13.9	16.1	14.8
Transport,	3.5	3.0	3.5	2.9	3.6	3.0	3.6	2.9	3.6	3.1
Services	14.3	12.7	13.6	12.7	14.5	13.1	16.1	14.3	16.3	15.2
Other	0.1	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.1	0.1

Source: Report of the Labour Force Survey, National Statistics Office (various years)

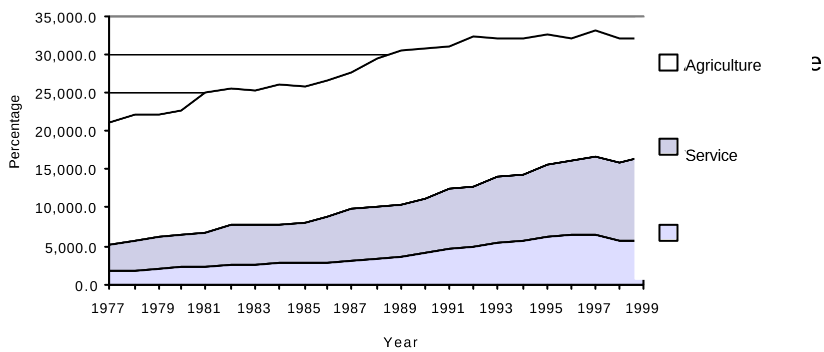
changes in economic activity, which are to be expected in the course of economic development.

Figure 4.3 demonstrates the shift to industrial employment in Thailand in three major sectors during the past two decades.[8] The share of agricultural employment significantly decreased from 74.4 percent to 48.5 percent, while industrial employment increased from 8.3 percent to 18.4 percent, and service employment from 17.2 percent to 33.1 percent. The speed of change was relatively slow for employment in agriculture, with a growth rate of approximately 0.7 percent *per annum* from 1981 to 1996 (Srawooth and Kulaya 1998:Table 9). The productivity in agriculture, in terms of GDP per worker in this sector, increased by 4.5 percent *per annum* during the same period (Srawooth and Kulaya 1998: Table 9). During this period, be-

8 A three-sector grouping is obtained by dividing non-agricultural industries into two categories: the industrial sector (manufacturing, mining and construction) and the service sector (public utilities, commerce, transport and communication, and serv-

fore the crisis, employment in industry showed a slowly-increasing trend, with an annual growth rate of 6.2 percent, and with an annual growth rate of GDP per worker of 3.8 percent. There was a small decline in manufacturing employment growth during the time of the economic crisis. Employment in services showed a consistently-increasing trend, with an average rate of 4.6 percent, but with a lower

Figure 4.3. Shift of Employment Structure by Industry, 1997-1999



Source: Thailand Development Resource Institute

annual growth rate of GDP per worker of only 0.8 percent (Srawooth and Kulaya 1998: Table 9).

4.2.2.2. Occupational Structure and Change

The occupational composition in Thailand has been improving consistently with the development of the economy. Data from censuses and labour force surveys (LFS) indicated that the proportion of high-level manpower such as professionals, technical workers, and administrative, executive and managerial workers increased over time: from 2.9 percent in 1980 to 4.4 percent during the 7th Plan (1992-1996), and 5.7 percent from 1997 to 1999 for the professional category. The proportion of administrative manpower increased from 1.9 percent in 1980 to 2.6 percent during the 1997-99 period. In 1999, professional and technical workers accounted for 6.8 percent and 6.3 percent of total employment in February and August, respectively (Table 4.4).

Consistent with the declining trend of employment in the agricultural sector, the proportion employed as farmers, fishermen and related workers decreased from 72.5 percent in 1980 to 50.2 percent during the 1997-99 period. In 1999, the proportion of employment in agriculture was 41.9 percent and 48.7 percent during the slack season and high season, respectively, in spite of the expectation that agriculture would absorb a large number of workers who became unemployed as a result of

Table 4.4. Employment by Occupation, 1995-1999

Occupation	1995		1996		1997		1998		1999	
	Round 1 (Feb)	Round 1 (Aug)	Round 1 (Feb)	Round 1 (Aug)	Round 1 (Feb)	Round 1 (Aug)	Round 1 (Feb)	Round 1 (Aug)	Round 1 (Feb)	Round 1 (Aug)
Total (percent)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Professional	5.1	4.9	4.9	4.7	5.6	5.3	6.2	5.7	6.8	6.3
Administrative and management	2.9	2.2	2.7	2.4	2.8	2.4	3.0	2.5	3.3	2.8
Clerk	4.1	3.9	4.1	3.8	3.9	3.8	4.2	4.0	3.5	3.8
Commerce	13.2	11.2	13.0	11.7	13.6	11.8	14.8	12.5	14.7	13.4
Agriculture	40.9	52.3	40.4	50.2	39.5	50.6	39.6	51.3	41.9	48.7
Transport, communications	4.6	3.9	4.3	3.9	4.6	3.8	4.5	3.6	4.4	3.8
Craftsmen and labourers	24.0	17.4	25.6	18.9	24.7	17.6	22.3	15.7	20.0	16.3
Services	5.2	4.2	4.8	4.4	5.1	4.6	5.3	4.7	5.4	4.9
Others	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source : Report of the Labour Force Survey, National Statistics Office (various years)

the 1997 economic crisis. During the same period, the proportion of clerical workers increased from 1.7 percent to 3.9 percent, craftsmen and production workers from 9.6 percent to 16.6 percent, and service workers from 2.8 percent to 4.7 percent.

In the short-run, however, the number of workers by occupation and occupational structure may fluctuate and/or deviate from the long-term trends. This is because of short-run factors such as economic fluctuation, weather, political problems, etc. Table 4.4 shows the occupational structure and change between 1995 and 1999 on a one-half-year basis. In spite of economic recession, the number and proportion of professional and technical workers and administrative and management occupations continued to increase, and the number and proportion of agricultural workers continued to decrease. The number and proportion of craftsmen and production workers also decreased. While the decrease in the employment of craftsmen and production workers can be connected with the impact of the crisis on the construction sector, it is not be clear why the number of professional and administrative workers increased in spite of the economic crisis, which has otherwise caused widespread lay-offs and unprecedented high unemployment. Aside from labour mobility, an explanation could be due to the survey definitions and classification of workers under the two categories. By definition, the professional and technical workers category includes technical workers, as well as semi-professionals such as traditional masseuses, midwives, drafters, teachers and tutors, monks or preachers, actors, dancers and musicians, etc. Some of these professions which are relatively-easy to enter became safety nets for workers who were laid-off from other occupations during the crisis. An examination of the subgroup of professional/technical workers revealed that out of the net increase in this occupational group of 198,300 between August 1998 and August 1999, 126,900 were in the “other professional”

sub-groups. Over 40,000 were “other physicians and medical technicians”, and 33,300 were “professors, teachers, and educational personnel.”[9] Indeed, much more work needs to be done to understand the short-term fluctuation of occupational employment.

4.2.3. Wage Employment

Wage employment, defined by the LFS as both public and private employees, is an indicator of the size of the relatively-formal labour market which involves explicit wage transactions. As such, wage employment is also a good indicator of economic development, in terms of industrialisation or the expansion of the non-agricultural sectors.

During the study period, more than 90 percent of wage employment was in the private sector. The share of wage employment in the public sector began to rise a little after the crisis, but the percentage share remained about 3 percent of total wage employment (Table 4.5).

4.2.3.1. Long-term Trends

According to the Population Censuses (conducted in April every year), the proportion of wage employment in Thailand increased steadily from 15.6 percent in 1970 to 20.2 percent and 26.7 percent in 1980 and 1990, respectively. In 1999, based on the LFS, the proportion was 43.6 percent in February and 38.3 percent in August. In terms of absolute numbers, wage employment increased from 2.6 million in 1970 to 4.7 million in 1980 and 8.3 million in 1990. The average rates of growth *per annum* were 8.0 percent from 1970 to 1980, and 7.8 percent from 1980 to 1990. With the estimated number of wage-employed at 12.8 million in February 1999, the average rate of growth of wage employment from 1990 to 1999 decreased to about 6.0 percent per year, probably because of the 1997 economic crisis.

Tables 4.5. shows the recent trend of wage employment from 1995 to 1999. In general, wage employment in the dry season (round one, first half of the year) was greater than that in the wet season (round two, peak agricultural season, second half of the year) due to the movement of labour into and out of the agricultural sector. In 1999, wage employment in the slack season was approximately 12.9 million, slightly higher than that in the peak season of about 12.3 million. Wage employment in the dry season in 1999 shows a clear contraction from the levels experienced from 1995 to 1998, which was usually more than 13 million. In the wet season, the level in 1999 indicated an improvement from the previous year.

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9 The sum of the increase exceeds 187.5 because employment in some other sub-

Table 4.5. Wage Employment by Economic Sector, 1995-1999

(Round 1 / Feb.)	1995			1996			1997			1998			1999		
	Private	Public	Total	Private	Public	Total	Private	Public	Total	Private	Public	Total	Private	Public	Total
Agriculture	2,011.70	69.20	2,080.90	2,142.10	23.10	2,165.20	1,995.80	40.00	2,035.80	2,077.80	31.8	2,109.60	2,002.70	46.10	2,048.80
Mining and quarrying	62.10	0.10	62.20	50.50	0	50.50	52.80	0.40	53.20	51.80	0.10	51.90	70.50	0.40	70.90
Manufacturing	3,335.30	31.40	3,366.80	3,504.50	17.80	3,522.30	3,560.20	21.40	3,581.40	3,562.70	39.50	3,602.30	3,413.50	31.40	3,444.90
Construction and repair	2,413.70	0.50	2,414.10	2,831.80	1.30	2,833.10	2,729.20	0.40	2,729.60	1,791.80	0.10	1,791.90	1,369.10	0	1,369.10
Electricity, gas, water, etc.	11.60	176.80	188.40	14.30	144.80	159.10	13.80	151.50	165.30	18.90	158.20	177.20	7.80	157.00	164.80
Commerce	1,311.80	53.0	1,364.70	1,541.80	47.50	1,589.30	1,560.50	68.30	1,628.80	1,466.60	83.80	1,550.40	1,511.70	94.80	1,606.50
Transport, communications	305.50	125.40	430.80	343.90	141.70	485.60	356.20	165.30	521.50	311.10	178.20	489.30	342.20	168.80	511.00
Services and other	1,280.50	1,961.40	3,241.80	1,252.10	1,934.50	3,186.60	1,370.00	1,968.70	3,338.70	1,397.80	2,176.30	3,574.20	1,501.30	2,137.90	3,639.20
Total	10,732.10	2,417.60	13,149.80	11,681.00	2,310.60	13,991.60	11,638.60	2,415.70	14,054.30	10,678.70	2,668.00	13,346.70	10,218.90	2,636.50	12,855.40
Percentage	81.60	18.40	100	83.50	16.50	100.00	82.80	17.20	100	0.80	0.20	100	79.50	20.50	100
(Round 3 / Aug.)															
Agriculture	1,630.20	33.80	1,664.00	1,563.40	18.00	1,581.40	1,585.00	28.40	1,613.40	1,727.50	35.40	1,762.90	1,806.70	28.10	1,834.80
Mining and quarrying	42.70	0.60	43.30	42.50	0.70	43.20	41.50	0.40	41.90	38.90	0.20	39.10	47.70	0	47.70
Manufacturing	3,116.70	42.00	3,158.70	3,260.80	28.30	3,289.10	3,252.80	25.90	3,278.70	3,191.30	40.30	3,231.50	3,263.20	23.40	3,286.60
Construction and repair	1,583.60	0.40	1,584.00	1,943.40	0.60	1,944.00	1,812.90	0.60	1,813.50	1,104.50	0	1,104.50	1,111.50	5.30	1,116.80
Electricity, gas, water,	6.30	158.20	164.50	5.00	133.60	138.60	10.60	162.0	172.60	8.70	165.10	173.80	5.30	151.80	157.10
Commerce	1,355.90	60.80	1,416.70	1,498.70	60.60	1,559.30	1,707.90	0.73	1,780.90	1,412.70	93.10	1,505.80	1,584.70	69.80	1,654.40
Transport, communications	285.80	131.40	417.20	262.90	166.40	429.30	273.90	166.10	440.00	247.70	181.40	429.00	271.20	171.10	442.30
Services and other	1,168.00	1,997.00	3,164.90	1,274.00	1,892.40	3,166.40	1,378.80	1,969.80	3,348.60	1,304.90	2,177.70	3,482.60	1,427.20	2,309.50	3,736.70
Total	9,189.20	2,424.10	11,613.30	9,850.60	2,300.60	12,151.20	10,063.20	2,426.20	12,489.40	9,036.00	2,693.20	11,729.20	9,517.50	2,758.90	12,276.40
Percentage	79.10	20.90	100	81.10	18.90	100.00	80.60	19.40	100	7	23	100	77.50	22.5	100

Source: Calculated from LFS data

Proportionately, wage employment in round one increased from 44.3 percent in 1994 to 46.5 percent in 1996, but declined to 45.4 percent in 1998, and further to 42.8 percent in 1999. In round three, the proportion increased from 34.8 percent in 1994 to 37.7 percent in 1996, with a drop to 36.5 percent in 1998, before bouncing back to 38.3 percent in 1999, probably due to the improved employment situation in the second half of 1999.

4.2.3.2. Age-sex Differentials

By and large, the proportion of wage employment was greater for males than females: in round one, the proportion of male to female was about 61 to 39 percent in 1995. The proportion declined slowly over time to about 58 to 42 percent in 1999; in round three, the proportion was lower than in round one, 59 percent to 41 percent in 1995, and declined from 56 percent to 44 percent in 1999. This phenomenon clearly indicates the increasing trend of women's participation in the labour market.

In terms of age structure, in 1999 (slack season), the prime ages for the Thai workforce were between ages 20-24 and 40-49, with the proportions ranging from 14.1 percent (age group 35-39) to 19 percent (age group 25-29). This is similar to the pattern in the peak season. However, the compositions of age group by sex were highest for the age group 25-29 for both sexes.

4.2.3.3. Sectoral Structure

When classified by economic sector, in 1999, more than 80 percent of wage employment was in the non-agricultural sectors: 26.8 percent in manufacturing, 28.3 percent in services, 10.7 percent in construction, and 12.5 percent in commerce. The share of wage employment in agriculture was relatively stable at around 15-16 percent from 1995 to 1999, while the proportions of some non-agricultural sectors, especially construction, were not stable. The crisis adversely affected wage employment in the construction sector, as well as mining and quarrying, commerce, and transportation. Wage employment in construction contracted from 2,729,600 workers (or 19.4 percent) in 1997 (slack season) to 1,791,900 workers (or 13.4 percent) in 1998, and 1,369,100 (10.7 percent) in 1999. Wage employment in the service sector positively responded to the crisis, with an increase from approximately 23.8 percent in 1997 (dry season) to 28.3 percent in 1999. However, it may be noted that the increase of wage employment in the service sector between 1997 and 1998 occurred in the public sector. Such an increase could be due to the government's job-creation programme (Table 4.6).

4.2.3.4. Educational Structure

The majority of wage workers in employment in 1999 (54.9 percent) had only up-

Table 4.6. Employment by Work Status, 1996-1999 (millions of people)

	1996		1997		1998		1999	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
(Round 1 / Feb.)								
Total	29.94	100.0	30.3	100.0	29.4	100.0	30.0	100.0
Employers	0.84	2.8	0.8	2.5	0.8	2.7	0.9	3.1
Government employees	2.15	7.2	2.4	8.0	2.7	9.1	2.6	8.8
Private employees	11.68	39.0	11.6	38.5	10.7	36.3	10.2	34.0
Self-employed workers	9.37	31.3	9.3	30.7	9.5	32.2	10.1	33.6
Unpaid family workers	5.90	19.7	6.1	20.3	5.8	19.7	6.1	20.4
(Round 3 / Aug.)								
Total	32.23	100.00	33.16	100.00	32.14	100.00	32.09	100.00
Employers	0.81	2.52	0.75	2.25	0.8	2.57	0.9	2.91
Government employees	2.30	7.14	2.43	7.32	2.7	8.38	2.8	8.60
Private employees	9.85	30.56	10.06	30.35	9.0	28.12	9.5	29.66
Self-employed workers	9.94	30.84	9.87	29.76	10.0	31.17	10.2	31.71
Unpaid family workers	9.33	28.94	10.06	30.33	9.6	29.77	8.7	27.12

Source : Report of the Labour Force Survey, National Statistics Office (various years)

per elementary education, while 14.5 percent had lower secondary, 11.1 percent had upper secondary and vocational education, and 19.4 percent had university education. As compared with the past few years, the educational structure improved: the proportion of the upper-elementary educated workers decreased from 64.8 percent in 1995 to 54.9 percent in 1999, while those with lower secondary education increased from 11.5 percent to 14.5 percent, and those with upper secondary and vocational education from 9.24 percent to 11.1 percent (Table 4.7).

Between 1995 and 1999, workers in wage employment with university education increased at the highest rate of 31.25 percent, followed by those with lower secondary education (27.7 percent), and upper secondary and vocational education (17 percent). The trend of wage employment by education level in the peak agricultural season is similar to that of the slack season. In the peak season, the number of workers in wage employment with upper elementary education declined from 7,063,000 to 6,254,000, and those with lower secondary education from 1,863,000 to 1,834,000. Wage employment with upper secondary and vocational education increased from 1,421,000 to 1,476,000, and those with university education from 2,493,000 to 2,703,000. This phenomenon could be partly explained by the tendency of wage workers with lower education (upper elementary and lower secondary education) to move back to the agriculture sector in the peak agricultural season, and the wage labour market finding substitute workers with higher levels of education. The total number of workers in wage employment in 1999 reflected a significant decrease from previous years, mainly because of the crisis.

4.2.3.5. Wage Differentials

Table 4.8 shows the pattern of seasonal wage differentials by age, sex and education. By age structure, the wage level increased with age, which may reflect years of

Table 4.7. Wage Employment by Educational Level, 1995-1999

(Round 1 / Feb.)	1995				1996				1997				1998				1999			
	Private	Public	Total	%	Private	Public	Total	%	Private	Public	Total	%	Private	Public	Total	%	Private	Public	Total	%
Upper and Lower	7,994.2	521.5	8,515.7	64.8	8,713.6	502.4	9,216.0	65.9	8,339.0	506.3	8,845.3	62.9	7,234.4	462.4	7,696.8	57.7	6,622.8	440.5	7,063.3	54.9
Lower Secondary	1,181.4	326.8	1,508.2	11.5	1,294.0	338.1	1,632.1	11.7	1,343.1	340.0	1,683.2	12	1,483.6	348.3	1,831.9	13.7	1,509.5	353.4	1,862.9	14.5
Upper Sec. & Vocational	830.6	384.3	1,214.9	9.24	857.7	330.6	1,188.3	8.49	960.9	370.8	1,331.7	9.48	964.2	448.1	1,412.3	10.6	1,014.6	406.9	1,421.5	11.1
University	715.3	1,184.3	1,899.6	14.4	812.3	1,139.5	1,951.7	13.9	987.6	1,197.2	2,184.8	15.5	993.1	1,408.8	2,401.9	18	1,057.7	1,435.7	2,493.3	19.4
Unknown	10.6	0.8	11.3	0.09	3.4	0.0	3.4	0.02	7.9	1.4	9.4	0.07	3.3	0.4	3.7	0.03	14.3	0.0	14.3	0.1
Total	10,732.1	2,417.6	13,149.8	100	11,681.0	2,310.6	13,991.5	100	11,638.6	2,415.7	14,054.3	100	10,678.7	2,668.0	13,346.7	100	10,218.9	2,636.5	12,855.4	100.0
%	81.6	18.4	100.0		83.5	16.5	100.0		82.8	17.2	100.0		80.0	20.0	100.0		79.5	20.5	100.0	
(Round 3 / Aug.)																				
Upper and Lower	6,478.3	503.5	6,981.8	60.1	6,846.9	490.4	7,337.3	60.4	6,732.9	439.1	7,172.0	57.4	5,638.7	452.9	6,091.6	51.9	5,768.4	485.7	6,254.1	50.9
Lower Secondary	1,094.9	359.6	1,454.5	12.5	1,291.1	333.5	1,624.6	13.4	1,315.1	339.1	1,654.2	13.2	1,409.7	380.4	1,790.1	15.3	1,487.4	346.9	1,834.3	14.9
Upper Sec.& Vocational	834.1	384.0	1,218.1	10.5	852.0	341.5	1,193.5	9.82	978.3	391.5	1,369.8	11	901.6	469.5	1,371.1	11.7	1,061.7	414.5	1,476.2	12.0
University	777.7	1,176.3	1,954.0	16.8	859.0	1,135.2	1,994.3	16.4	1,035.1	1,255.9	2,291.0	18.3	1,081.0	1,390.3	2,471.3	21.1	1,191.7	1,511.6	2,703.3	22.0
Unknown	4.2	0.7	4.9	0.04	1.6	0.0	1.6	0.01	1.9	0.5	2.4	0.02	5.0	0.0	5.0	0.04	8.4	0.1	8.5	0.1
Total	9,189.2	2,424.1	11,613.3	100	9,850.6	2,300.6	12,151.2	100	10,063.3	2,426.2	12,489.4	100	9,036.0	2,693.2	11,729.2	100	9,517.5	2,758.9	12,276.4	100.0
%	79.1	20.9	100		81.1	18.9	100		80.6	19.4	100		77.0	23.0	100		77.5	22.5	100.0	

Source : Calculated from Labour Force Survey data, National Statistics Office

experience. In 1999, the wage level was higher in the peak season than in the slack season at every age group, except those aged 13-14. The wage level reached its peak at age 50-59 and declined a little at age 60 and over. By gender, from 1995 to 1999, males' wage rate was higher than females'. Wage level also increased with the educational attainment of the workers. Those with university education had the highest wages, while those with lower education received the lowest wages.

4.2.4. Unemployment and Underemployment

4.2.4.1. Unemployment

Unemployment measurement in Thailand is based on the LFSs, partly because of the lack of unemployment insurance and unemployment registration. The LFS defines the unemployed as "persons, 13 years of age and over who, during the survey week, did not work even for one hour, had no jobs, business enterprises, or farms of their own, from which they were temporarily absent, but were available for work." The unemployed consist of those who had been looking for work, and those who had not been looking for work because of illness or belief that no suitable work was available. This group also included those waiting to take up a new job, waiting for the agricultural season to begin and other reasons.

This definition could result in an underestimation of unemployment for several reasons. For example, if a person works for more than one hour during the survey week, he or she will be automatically considered employed, even though the person may have worked for only two hours during the whole week. Another problem with the definition may be the criteria of "available for work". If a person does not work (at the time of the survey) he/she will be asked whether he/she is available for work, which is a rather broad question because it very much depends on the kind, as well as the location, of the work which is available. If a person does not work and is not available for work, he/she will be considered as being not in the labour force, not as unemployed.

Further, the definition of the unemployed does not include "employed persons who did not work, but had regular jobs, business enterprises or farms". This category is defined as employed persons for the reason that they were temporarily absent because of illness or injury, vacation or holiday, strike or lockout, bad weather, off-season or other reasons, such as temporary closure of the workplace. The definition also does not include the "seasonally inactive labour force" which is defined as persons, 13 years of age and over who were neither employed nor unemployed, but were waiting for the appropriate season, and persons who usually worked without pay on farms or in business enterprises engaged in seasonal activities owned or operated by the head of the household or any other member of the household.[10]

10 This group is classified as "unpaid family workers" when employed.

Table 4.8. Monthly Wage and Earning Differentials, 1995-1999

	1995		1996		1997		1998		1999	
	Round 1	Round 3	Round 1	Round 3	Round 1	Round 3	Round 1	Round 3	Round 1	Round 3
Classified by age										
13-14	1,770.84	2,042.40	2,124.16	2,117.29	2,632.22	2,385.97	2,338.97	2,317.57	2,792.16	2,318.10
15-19	2,631.38	2,987.21	2,953.82	3,061.25	3,395.15	3,538.58	3,460.02	3,482.44	3,303.46	3,338.50
20-24	3,387.00	3,932.02	3,832.18	4,162.51	4,198.30	4,474.18	4,413.76	4,435.95	4,229.25	4,399.47
25-29	4,478.09	4,869.80	4,797.35	5,272.57	5,132.92	5,542.82	5,497.46	5,635.43	5,601.47	5,780.19
30-34	4,633.21	5,247.05	5,348.48	5,974.57	5,980.54	6,772.72	6,381.62	6,444.76	6,097.81	6,356.31
35-39	5,466.71	6,486.43	5,938.39	6,596.45	6,600.31	7,224.34	6,877.31	7,834.22	7,020.31	7,250.84
40-49	6,668.08	8,252.83	7,017.86	7,378.02	7,822.88	8,653.91	8,195.26	8,951.34	8,022.94	8,734.85
50-59	6,933.46	7,799.59	7,878.77	8,438.76	8,347.93	9,320.92	9,627.57	11,053.79	10,732.95	10,806.37
60 and over	3,251.31	3,199.05	3,463.32	3,942.29	5,012.77	4,974.82	4,718.87	5,626.32	5,466.35	6,859.95
Classified by sex										
MALE	5,049.42	5,940.04	5,566.12	6,133.47	6,168.51	6,894.11	6,705.98	7,328.63	6,726.45	7,245.84
FEMALE	4,240.46	4,876.32	4,740.94	5,110.61	5,413.66	5,852.11	5,790.03	6,129.91	5,869.34	6,003.49
Classified by education										
Upper and Lower Elementary	3,207.66	3,491.05	3,551.14	3,730.01	3,851.05	4,058.63	4,026.59	4,021.58	3,927.15	3,972.15
Lower Secondary	5,474.80	5,803.96	5,750.59	5,998.07	5,984.22	6,154.77	6,124.10	6,208.16	5,940.58	6,007.06
Upper Secondary & Vocational	6,481.40	6,915.85	6,746.16	7,073.56	7,192.75	7,461.42	7,292.15	7,216.64	7,151.18	7,198.89
University	10,983.95	11,200.21	11,717.56	11,804.25	12,540.47	12,556.12	12,402.66	12,535.62	12,538.01	12,391.46
Unknown	4,343.62	9,568.12	4,127.78	2,093.75	7,046.67	5,312.50	3,330.00	6,053.33	4,239.05	5,243.00

Source : Calculated from Labour Force Survey data, National Statistics Office

Unemployment in Thailand has been generally low, around 1 percent, particularly prior to the 1997 crisis. The reasons for the low open unemployment rate include: first, a large proportion of the labour force are either own-account workers (self-employed) or unpaid family workers, mainly in agriculture. As shown in Table 4.6, self-employed and unpaid family workers still accounted for about 58.7 percent of total employment in 1999; second, as in many other developing economies, the informal sector still plays an important role in providing employment opportunities for the labour force; and, third, Thailand does not yet have an unemployment insurance system which would encourage workers to report their unemployment.

In 1999, unemployment was approximately 1.72 million (or 5.2 percent of the total labour force), and 0.99 million (3.0 percent) in slack and peak seasons, respectively. The financial crisis, which began in 1997, caused unemployment to increase significantly. As can be seen from Table 4.1, the rate of unemployment, as the percentage of the total labour force, jumped from 2.3 percent in 1995 (slack season) to 4.6 percent in 1998 (slack season). It should be noted that the number of unemployed persons in the slack season is relatively higher than in the peak agricultural season.

The age profile of the unemployed in 1999 indicates that during the slack season the largest proportion were in the 20-24 age group (26.5 percent), followed by those aged 25-29 (19.2 percent), and aged 15-19 (15.5 percent). During the wet season, the 20-24 age group still dominated the unemployed, but were followed by those in the younger age group (15-19) and then those aged 25-29. By sex, in 1999, the ratio of male unemployment was higher than that of female unemployment in both seasons. Before the crisis, the ratio of female unemployment was, however, slightly higher than male unemployment in the slack season. In the peak season, the ratio of male unemployment was consistently higher than for females, both before and after the crisis (Table 4.9).

When classified by education, more than 50 percent of the total of the unemployed had less than elementary education. The proportion of the unemployed who had elementary education decreased after the crisis, while the proportion of the unemployed with lower secondary education, upper secondary and vocational education, and university education increased. During the slack season, the unemployment rate of those with upper elementary education was relatively high, probably because they were largely from the agricultural sector and were waiting for the next farming season. It was also noted that the proportion of the educated unemployed (with university education) peaked in round three of 1997, (20.6 percent), and declined to 12.9 percent in 1999 (Table 4.10).

In terms of geographical distribution, unemployment was most significant in the northeast. In 1999, the number of unemployed persons in the northeast was

Table 4.9. Unemployment by Age and Sex, 1995-1999 (thousands of people)

	1995		1996		1997		1998		1999	
Round 1	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
13-14	2.7	7.2	2.5	4.1	7.7	6.2	6.1	3.1	7.7	7.4
15-19	81.1	58.2	71.2	59.8	52.9	52.3	139.7	87.8	172.6	93.0
20-24	132.8	75.2	116.9	67.0	127.9	95.3	274.2	138.9	280.4	174.9
25-29	75.6	59.2	62.6	52.5	64.3	60.6	158.0	125.3	176.2	153.9
30-34	33.6	42.7	26.0	43.5	37.4	41.1	97.8	81.9	95.5	112.1
35-39	14.8	37.2	14.8	27.9	21.5	22.9	58.5	57.9	68	89.8
40-49	10.2	52.5	13.3	42.9	17.9	42.7	70.4	91.9	66.2	108.2
50-59	7.8	22.5	6.5	21.8	9.4	24.5	33.4	29.7	40.9	44.9
>=60	2.3	7.8	4.2	3.8	4.4	9.0	11.2	13.6	13.8	9.9
Total	360.9	362.5	318.1	323.3	343.3	354.6	849.4	630.0	921.5	794.3
Percentage	49.9	50.1	49.6	50.4	49.2	50.8	57.4	42.6	53.7	46.3
Round 3										
13-14	5.6	7.1	1.5	3.2	0.1	0.6	3.8	5.2	2.2	3.9
15-19	34.5	32.4	36.5	33.8	29.0	18.8	86.7	66.6	117.1	63.7
20-24	54.9	47.3	61.4	41.0	64.1	35.8	212.8	122.1	163.2	132.2
25-29	34.6	28.6	39.7	35.4	20.8	30.5	117.4	91.2	97.4	66.5
30-34	11.7	21.2	16.2	12.4	11.3	19.4	68.2	62.4	52.1	51.0
35-39	7.4	20.1	10.6	8.2	6.4	9.1	42.4	52.0	36.6	40.9
40-49	5.9	24.5	9.0	14.0	14.7	12.1	66.7	66.1	45.9	51.1
50-59	8.3	20.2	6.5	12.0	5.6	9.4	20.9	37.3	27.3	27.1
>=60	4.3	6.6	5.0	7.3	2.6	2.3	6.4	9.7	4.5	2.9
Total	167.2	207.9	186.5	167.4	154.5	138.1	625.3	512.7	546.4	439.4
Percentage	44.6	55.4	52.7	47.3	52.8	47.2	54.9	45.1	55.4	44.6

Source: Calculated from Labour Force Survey data, National Statistics Office

Table 4.10. Unemployment by Education Level, 1995-1999

Education	1995		1996		1997		1998		1999	
	Round 1 Feb	Round 3 Aug	Round 1 Feb	Round 3 Aug	Round 1 Feb	Round 3 Aug	Round 1 Feb	Round 3 Aug	Round 1 Feb	Round 3 Aug
(Percentage)										
Upper element and lower	77.5	70.6	75.8	62.1	69.5	53.0	69.6	55.2	64.5	54.8
Lower Sec.	9.4	9.9	12.1	10.8	14.2	15.1	14.5	15.0	15.3	19.9
Upper Sec. And Vocational	8.8	11.1	6.4	13.5	7.5	11.3	8.4	12.9	9.7	12.3
University	4.2	8.4	5.7	13.6	8.8	20.6	7.4	16.9	10.5	12.9
Unknown	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Calculated from Labour Force Survey data, National Statistics Office

916,500 (53.4 percent) and 442,000 (44.8 percent) in the slack and peak seasons, respectively. The seasonal pattern of unemployment shows that the number of unemployed workers during the slack season is higher than in the peak season. Other regions such as the central (including Bangkok) and the north, also show a high ratio of unemployment in the slack season, with rates of 26.1 percent and 14.7 percent, respectively. During the peak agricultural season, central Thailand (including Bangkok) and the north had rates of unemployment as high as 32.6 percent and 15.7 percent, respectively. Unemployment after the crisis increased in all regions, except the central region and the south.

4.2.4.2. Underemployment

As mentioned above, unemployment in Thailand has been generally low except after the 1997 crisis. One of the major reasons is that a substantial number of those considered employed were underemployed, or worked less than they could or wished. Officially, underemployment is defined by the National Statistics Office (NSO) as those who work less than 35 hours per week during the week of the survey. In this study, however, underemployment is arbitrarily defined as those persons who work less than 20 hours per week in order to include only those who were really in need of more work.[11] Under this definition, the percentage of underemployment to total labour force ranged between 1.6 percent to 2.9 percent (1995 in the slack season to 1999 in the peak season), except in 1998 round one, which jumped to 4.6 percent due to the crisis. (Table 4.1).

Generally, underemployment did not show seasonality. There was no trend or direction of underemployment between 1995 and 1999. In 1995, 1997 and 1999 it was greater in the slack season than in the peak season, while in 1996 and 1998 it was the other way around. In 1999, the number of underemployed was approximately 862,700 and 953,900 in the slack and peak seasons, respectively. This level

11 Siamwalla (1998), for example, used this definition and classified this group as being "severely underemployed" and persons who work less than 35 hours per

indicated significant increases from the levels between 1995 and 1997. It was, however, less than the level in 1998.

It was also observed that young and old workers accounted for a considerable part of the underemployed. The underemployment rates were also larger for females, especially in the young age groups. The majority of the underemployed aged 15 to 19 accounted for 23.1 percent of total underemployment in the slack season, and 22.9 percent in the peak season (Table 4.11). This was followed by those aged between 40 and 49 (13.8 percent in slack season and 12.3 percent in peak season), and then those aged between 50 and 59 (11.8 percent in the slack season, and 14.0 percent in the peak season).

When classified by education, the majority of the underemployed had only elementary education or lower, which was consistent with the fact that most underemployed workers were young. In 1999, during the slack season, the percentage of underemployed persons with elementary education and lower was as high as 73.2 percent (or 697,800), followed by those with lower secondary education (17.7 percent or 469,300), and then those with upper secondary and vocational education (7.1 percent or 68,200). It should be noted that there had been no significant change in the educational pattern of underemployment, except the significant increase (as high as 200,000) in 1995 of the underemployed with an elementary education, both in the slack and the peak seasons (Table 4.12).

Table 4.11. Underemployment by Age and Sex 1995-1999 (thousands of peo-

	1995		1996		1997		1998		1999	
(Round 1)	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
13-14	15.6	18.1	21.7	18.5	26.9	18.6	24.9	27.4	23.8	29.3
15-19	54.0	40.1	51.5	54.8	46.8	45.8	108.5	98.5	97.6	101.7
20-24	27.1	23.4	33.0	32.4	30.2	31.1	89.3	78.1	53.7	36.4
25-29	17.8	25.5	17.9	32.0	20.9	23.0	74.9	89.2	36.9	31.3
30-34	19.0	27.6	24.3	26.4	18.3	27.0	94.2	80.1	33.5	46.8
35-39	21.0	21.9	23.5	33.6	15.3	14.8	68.6	111.6	30.9	36.5
40-49	18.9	43.0	28.3	56.7	36.2	42.1	96.9	177.4	43.9	74.9
50-59	22.6	35.6	54.5	44.7	26.9	40.6	85.5	77.3	50.6	51.5
>=60	33.5	25.4	51.1	34.0	38.4	41.1	53.8	40.9	46.7	36.5
Total	229.4	260.6	305.8	333.0	259.9	284.1	696.6	780.6	417.7	444.9
%	46.8	53.2	47.9	52.1	47.8	52.2	47.2	52.8	48.4	51.6
(Round 3)										
13-14	56.8	42.8	24.9	19.2	38.5	35.4	52.2	52.5	45.6	41.9
15-19	101.5	95.2	66.6	68.1	101.6	86.0	139.3	116.7	106.3	112.3
20-24	26.6	22.8	37.6	19.7	24.6	30.9	49.0	38.1	48.1	28.0
25-29	8.7	20.1	12.4	18.3	16.5	22.9	32.2	44.2	36.7	39.7
30-34	14.6	24.5	21.7	32.7	31.1	32.3	37.8	32.5	41.9	38.0
35-39	16.1	24.2	19.0	22.8	24.6	27.2	34.1	24.4	39.9	31.3
40-49	25.2	32.3	36.3	42.0	37.1	53.5	49.2	71.3	56.8	77.2
50-59	24.5	36.2	32.6	43.7	35.2	46.3	41.2	49.9	57.1	60.1
>=60	40.8	31.3	40.2	22.5	37.7	39.9	38.5	35.3	59.4	33.7
TOTAL	314.9	329.5	291.5	289.2	347.0	374.4	473.5	464.9	491.7	462.2
%	48.9	51.1	50.2	49.8	48.1	51.9	50.5	49.5	51.5	48.5

Source: Calculated from Labour Force Survey data, National Statistics Office

Table 4.12. Underemployment by Education Level, 1995-1999

Education	1995		1996		1997		1998		1999	
	Round 1 (Feb)	Round 3 (Aug)	Round 1 (Feb)	Round 3 (Aug)	Round 1 (Feb)	Round 3 (Aug)	Round 1 (Feb)	Round 3 (Aug)	Round 1 (Feb)	Round 3 (Aug)
Total Employment	489.98	644.36	638.80	580.69	543.95	721.36	1477.18	938.41	862.67	943.87
Upper and Lower Lower Secondary	54.49	113.91	77.51	106.66	63.82	134.01	241.05	191.36	151.19	169.25
Upper Secondary and University	8.36	5.93	10.02	6.49	10.83	17.27	73.42	24.91	16.45	18.65
Unknown	0.46	0.02	0.97	0.00	0.37	0.00	0.79	0.03	0.00	0.00
(Percentage)										
Total Employment	100.0	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Upper and Lower Lower Secondary	11.1	17.7	12.1	18.4	11.7	18.6	16.3	20.4	17.5	17.7
Upper Secondary and University	1.7	0.9	1.6	1.1	2.0	2.4	5.0	2.7	1.9	2.0
Unknown	0.1	0.0	0.2	0.0	0.1	0.0	0.1	0.0	0.00	0.00

Source: Calculated from Labour Force Survey data, National Statistics Office

By economic sector, most of the underemployed were in the agricultural sector. In this sector, the number of underemployed was 750,100, accounting for 78.6 percent of total underemployment in 1999, during the peak season. This was significantly high, as compared to the level in 1995 (277,100), or about 58.6 percent of total underemployment in the same season. Other economic sectors, for example, commerce and service, were 8.3 percent and 6.7 percent, respectively (Table 4.13).

4.2.5. Labour Migration in Thailand

4.2.5.1. Internal Migration

Internal migration could be classified into migration across regions and across areas when based on administrative areas. It could also be classified based on rural/urban location into rural-to-urban migration, urban-to-rural migration, rural-to-rural migration and urban-to-urban. Regarding migrant labour, they could be viewed as employed and unemployed. The definition of employed or unemployed migrants depends on their employment status at the areas of destination.

In 1995,[12] about 15.6 percent or 7 million of the working-age population (aged 13 and over) of 45.2 million were migrants.[13] Out of this number, 5.7 million or

12 1995 has been arbitrarily chosen to reflect a year before the crisis although it cannot be assumed that this is a normal year.

13 Defined according to the Labour Force Survey as those who changed their places

Table 4.13. Underemployment by Industry 1995-1998 (thousands of people**)**

Industry	Working less than 20 hours per week					Change			
	1995	1996	1997	1998	1999	1996	1997	1998	1999
(Round 1/February)									
Total	490.0	638.8	543.9	1477.2	862.7	148.8	-94.9	933.2	-614.5
Agriculture	299.2	437.4	353.7	585.6	580.4	138.2	-83.8	231.9	-5.2
Mining and Quarrying	0.6	0.0	0.0	2.9	4.3	-0.6	0.0	2.9	1.4
Manufacturing	35.9	51.2	44.1	489.2	49.3	15.3	-7.0	445.0	-439.8
Construction and Repair	8.3	20.7	13.7	31.0	13.0	12.4	-7.0	17.2	-17.9
Electricity, Gas, Water, etc.	0.4	0.1	2.3	1.4	1.0	-0.3	2.2	-0.1	-0.4
Commerce	68.4	70.8	67.5	220.1	105.5	2.4	-3.2	152.5	-114.5
Transport, Communications	10.7	12.9	11.3	31.3	11.3	2.3	-1.6	19.9	-20.0
Service and Others	66.4	45.7	51.2	115.8	97.7	-20.8	5.5	64.6	-18.1
(Round 3/August)									
Total	644.4	580.7	721.4	938.4	953.9	-63.7	140.7	217.1	15.5
Agriculture	473.0	436.3	531.4	713.3	750.1	-36.7	95.1	181.9	36.8
Mining and Quarrying	0.4	0.9	0.4	0.2	0.0	0.5	-0.5	-0.2	-0.2
Manufacturing	44.2	32.9	40.5	30.5	30.4	-11.3	7.6	-10.0	-0.1
Construction and Repair	3.6	8.5	7.7	12.4	18.8	5.0	-0.8	4.7	6.4
Electricity, Gas, Water, etc.	0.1	0.1	1.3	0.0	0.1	0.0	1.2	-1.3	0.1
Commerce	61.4	57.0	80.9	100.1	79.1	-4.4	23.9	19.2	-21.0
Transport, Communications	10.8	3.8	12.7	10.1	11.9	-7.0	9.0	-2.6	1.8
Service and Others	51.0	41.2	46.4	71.9	63.5	-9.8	5.3	25.5	-8.4

Source: Report of the Labor Force Survey, National Statistics Office (various years)

about 81.7 percent were in the labour force and 1.3 million or 18.3 percent were not. The proportion of male/female migrants was 55.9:44.1. However, the proportion of the non-labour force migrants was higher for females, i.e. approximately 68.5 percent of the non-labour force migrants were females (Table 4.14).

Surprisingly, for the country as a whole, the rural-to-urban migration comprised only about 19.3 percent, compared to an urban-to-rural migration of 31.6 percent. The rural-to-rural migration was the largest proportion of internal migration at 38.6 percent. In general, there were more male labour force migrants than female labour force migrants. For Bangkok, however, rural-to-urban migration comprised about 75.1 percent of the total migration.

Regionally, the northeast had the highest proportion of migration, 2.5 million, or 35.9 percent of the total. Bangkok had 1.1 million migrants, or about 16.2 percent. It could be observed that the proportion of male/female migration was highest in the northeast, with 62.1 percent males to 37.9 percent females. In other regions, the sex ratio was close to 50:50.

4.2.5.2 International Migration

Thai workers working abroad

In the past decade, many Thai workers went to work abroad for better pay. Out of the total number of 202,296 in 1995, the majority of 134,524, or 66.5 percent worked in East Asia, mostly in Taiwan. The remaining portions consisted of 46,257

Table 4.14. Migration of Population Aged 13 Years and Over by Employment, Region and Destination, 1995

	Whole Kingdom		Rural->Urban		Urban->Rural		Rural->Rural		Urban->Urban		from abroad		Unknown	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Whole Kingdom														
Total	3,927.0	3,103.9	673.3	683.4	1,309.2	913.2	1,537.9	1,176.1	315.3	303.8	87.4	21.7	3.9	5.7
Employed	3,476.2	2,173.5	563.6	460.6	1,212.4	694.9	1,385.9	835.2	232.6	164.9	77.9	12.6	3.9	5.3
Unemployed	46.1	46.9	3.5	3.0	24.0	21.3	15.8	18.8	2.2	3.7	0.7	0.2	-	-
Non-LF	404.7	883.5	106.2	219.8	72.9	197.0	136.2	322.1	80.5	135.2	8.8	9.0	0.1	0.4
Bangkok														
Total	575.6	561.1	427.1	426.7	-	-	-	-	132.9	130.2	15.6	4.1	-	0.1
Employed	478.3	378.5	383.3	316.8	-	-	-	-	79.6	60.4	15.3	1.3	-	0.1
Unemployed	0.6	1.9	0.6	1.4	-	-	-	-	-	0.5	-	-	-	-
Non-LF	96.7	180.7	43.2	108.5	-	-	-	-	53.3	69.3	0.3	2.8	-	-
Central														
Total	785.3	763.8	90.8	97.8	211.6	187.5	398.5	395.1	81.1	81.7	1.6	0.8	1.6	0.8
Employed	699.1	529.5	78.3	64.7	184.7	124.9	363.0	291.4	70.1	47.4	1.4	0.2	1.6	0.8
Unemployed	7.4	5.1	1.3	0.4	2.1	1.3	3.4	2.7	0.6	0.6	-	0.2	-	-
Non-LF	78.7	229.1	11.2	32.7	24.8	61.3	32.1	101.0	10.4	33.7	0.1	0.4	-	0.0
North														
Total	575.8	442.9	42.5	42.9	207.8	150.5	271.8	216.5	28.3	23.9	24.1	6.1	1.4	2.9
Employed	499.4	295.5	27.6	23.1	188.2	106.4	239.1	144.3	22.4	14.3	20.7	4.4	1.4	2.9
Unemployed	9.8	12.4	0.2	0.6	6.9	3.9	2.1	7.5	0.6	0.4	0.1	-	-	-
Non-LF	66.6	135.0	14.7	19.2	12.7	40.2	30.6	64.7	5.3	9.2	3.3	1.7	-	-
Northeast														
Total	1,566.0	955.6	64.0	64.0	807.0	496.0	605.3	345.6	45.1	41.2	43.8	7.1	0.9	1.8
Employed	1,429.7	743.1	36.6	29.6	768.2	410.9	547.5	269.9	38.4	26.7	38.1	4.7	0.8	1.4
Unemployed	21.2	20.0	0.6	0.2	13.5	13.3	5.7	4.6	0.7	1.8	0.6	-	-	-
Non-LF	115.2	192.5	26.8	34.2	25.2	71.8	52.0	71.1	6.0	12.6	5.1	2.4	0.1	0.4
South														
Total	424.2	380.4	48.8	52.0	82.9	79.2	262.3	218.8	27.9	26.7	2.3	3.6	0.0	0.1
Employed	369.6	226.7	37.8	26.4	71.2	52.7	236.3	129.6	22.0	16.0	2.3	2.0	0.0	0.1
Unemployed	7.1	7.5	0.7	0.4	1.5	2.8	4.6	4.1	0.4	0.3	-	-	-	-
Non-LF	47.5	146.2	10.3	25.2	10.2	23.8	21.4	85.2	5.5	10.4	-	1.6	-	-

Source: Labour Force Survey, round 3, 1995, National Statistics Office

in ASEAN (22.9 percent), 19,987 in the Middle East (9.9 percent), and 1,528 (1.3 percent) in Western countries. Brunei was the destination for the majority of Thai workers in ASEAN, while Israel and Taiwan were the most popular places for Thai workers in the Middle East, and East Asia, respectively (Table 4.15). With regard to the trend, the total outflow of Thai workers had increased from 63,024 in 1990 to 202,296 in 1995.

From 1990 to 1995, the percentage shares by region in the Middle East and Africa consistently decreased from 43.5 percent to 9.9 percent, and in the Western countries from 9.7 percent to 0.8 percent. On the contrary, the percentage share increased significantly in East Asia from 19.4 percent to 66.5 percent, while the percentage share in ASEAN fluctuated over the same period.

The Thai government does not impose restrictions on Thais working abroad. Major factors determining the flow of Thai workers are the host countries' economic situation, their policies, and relationships between Thailand and the host countries. During the economic crisis, Thai workers found that it was harder to get jobs abroad, and some had to come back to Thailand. In the past, tension between Thailand and Saudi Arabia, due to the unsolved murders of Saudi Arabian diplomats, resulted in the cessation of Thais migrating to Saudi Arabia for work.

Table 4.15. Number of Thai Workers Going Abroad by Country of Destina-

Countries	1990	1991	1992	1993	1994	1995
Middle East & Africa	27392	21482	23029	17019	17614	19987
Saudi Arabia	9970	5613	8707	5035	4152	2905
Qatar	1515	928	944	751	1534	1761
Bahrain	942	1047	841	750	594	345
Kuwait	1325	3121	3313	1859	1212	978
United Arab Emirates	1072	783	1300	1504	1830	1470
Libya	10610	7651	5407	4597	160	978
Israel	199	874	1064	1797	7641	10407
Others	1759	1465	1453	726	491	488
E-Asia	12229	16931	24984	77661	105861	134524
Japan	4210	6263	6773	5588	8848	8303
Taiwan	111	2237	10938	66891	91162	120360
Hong Kong	7908	8431	7273	5182	5851	5861
ASEAN	17263	21546	31181	40939	44626	46257
Singapore	6464	9488	11337	14171	15100	15624
Malaysia	2087	2473	6608	11358	12232	11830
Brunei	8009	8840	12729	14750	16553	17292
Others	703	745	507	660	741	1511
Western	6140	3890	2524	2331	1663	1528
USA&Europe&Australia	4933	3218	1913	1634	1241	1149
Others	1207	672	611	697	422	379
Total	63024	63849	81718	137950	169764	202296
% shares by Region						
Middle East & Africa	43.5	33.7	28.2	12.3	10.4	9.9
E-Asia	19.4	26.5	30.6	56.3	62.3	66.5
ASEAN	27.4	33.7	38.2	29.7	26.3	22.9
Western	9.7	6.1	3	1.7	1	0.8

Note: * January to November 1997. Source: Department of Employment, Ministry of Labour and Social Welfare

Alien workers in Thailand

Legal immigrants: Table 4.16 shows that there were 102,767 legal alien workers in 1999. These were skilled and semi-skilled foreign workers who were granted permanent residence under the Alien Act, and temporary workers under the Immigration Law Article 12 or Article 7, and the Investment Promotion Law. The majority of legal alien workers (49,976 persons or 48.6 percent of the total), were temporary workers under Article 7 of the Immigration Law. The permanent aliens totalled 19,361, or 18.8 percent. In recent years, the total number of legal workers has decreased from 164,313 in 1997 to 102,767 in 1999. The number of temporary workers permitted under Article 12 of the Immigration Law decreased by 66.7 percent. However, the number of permanent permits, and temporary permits under Article 7, and under the Investment Promotion Act (Board of Investment BOI) increased 12.5 percent, 8.9 percent, and 14.4 percent, respectively.

To encourage foreign investment, in June 1997, the Ministry of Interior, with approval of the Cabinet, declared that the quota of general aliens who could be granted residency permits should not exceed 100 people for each nationality. The scheme grants residency permits only to aliens who invest in a business in the country and bring in at least 10 million baht. After three years, the total number of aliens to be granted residency is to be limited to 5,000 persons. Currently the Ministry of Interior allows all aliens who have over-stayed in Thailand to apply for such a residency permit under the same conditions.

Illegal Immigrants: Immigrants who had worked and stayed in Thailand before June 1995 were allowed to register for temporary permits under Article 17 of the Immigration Law. The nationals of only three countries, Myanmar, Laos and Cambodia were granted permits. The occupations or production activities were limited to labour or unskilled work. However, in 1999, out of 663,776 of the estimated illegal migrant workers, only 99,996 persons, or 15 percent, had registered. Most of

Table 4.16. Existing Alien Workers in Thailand by Classification, 1996-1999

(Persons)

	1996	1997	1998	1999	%Growth 1997-99
Legal Alien Workers	316,174	164,313	116,657	102,767	-20.92
Permanent	121,521	15,291	21,853	19,361	12.52
Article 7 (Temporary)	44,998	42,162	48,288	49,976	8.87
Article 10 (BOI)	18,609	18,049	21,474	23,637	14.44
Article 12	131,046	88,811	25,042	9,793	-66.79
Illegal Migrant Workers	717,689	961,467	987,889	663,776	-16.91
Registered (1)	293,652	293,652	90,403	99,996	-41.65
Myanmar	256,492	256,492	78,904	89,336	-40.98
Laos	11,594	11,594	1,231	1,164	-68.31
Cambodia	25,566	25,566	10,268	9,496	-39.05
Non-registered (2)	423,358	667,815	896,486	563,780	-8.12
Total	1,033,863	1,125,780	1,104,546	766,543	-17.48

Note: 1) Registered Illegal Migrant Workers from Myanmar, Laos and Cambodia who received two-year work permits in 1996 (held constant in 1997), one year extension in 1998 and 1999. 2) Estimated by National Security Council and Ministry of Labour and Social Welfare (various years)

Source: Department of Employment, MOLSW (Sub-Committee on Solving Illegal Workers)

the registered workers were migrant workers from Myanmar (amounting to 89,336 persons or 89 percent of the total). The remaining registered workers came from Cambodia and Laos.

The total number of illegal migrant workers decreased from 961,467 in 1997 to 663,776 in 1999 (Table 4.16). In 1999, the estimated number of non-registered migrant workers was 563,780, compared with 99,996 registered workers. From 1997 to 1999 the number of illegal migrant workers dropped by 16.9 percent, while the non-registered migrant workers dropped by 8.1 percent. Illegal migrant workers from Laos decreased significantly (68.3 percent), followed by workers from Myanmar and Cambodia, i.e. 41 percent and 39 percent, respectively. The decrements were due to the repercussions of the Thai economic crisis, and also the government policy to stop the flow and send back illegal workers.

Migration policy

Illegal migrant workers face a number of problems – low wages, discrimination, unsatisfactory working conditions, and the absence of any form of protection of their human rights. The economic crisis resulted in a large number of laid-off Thai workers. At the same time, there were almost one million illegal alien workers around Thailand, with less than 300,000 registered. Thailand does not have policy to allow these workers to stay permanently, and tries to systemise those who already are in the country. Registration of alien workers is a major measure to control immigration. The registered workers will be repatriated when they complete their term. This is to prevent them from competing for jobs with Thai workers.

In June 1998, to increase job opportunities an estimated one million unemployed Thai workers, 300,000 registered migrants were repatriated when they completed their two-year terms. Unregistered migrants were to be arrested.

However, there were complaints and pressure from businessmen, forcing the government to extend the terms of employment for registered migrants. At the present time, registered workers from Myanmar, Laos and Cambodia are allowed to work until August 2001. The permissible areas cover 18 industries in 37 provinces. The jobs are in unskilled activities that are difficult to fill with Thai workers.

4.2.5.3. Impacts on Migration After the Crisis

After the crisis, there were major changes in the patterns of migration in Thailand. There was a decline in labour flows from the agriculture to the non-agriculture sectors, and a reverse trend of labour movement towards rural areas.

Figure 4.4 illustrates the net movement of workers from the agricultural sector to other industries in the first quarters of 1996 and 1999. Generally the number of

migrants from the agriculture sector is typically high in the first quarter of each year, as it is the dry season in agriculture. In the first quarter of 1997, prior to the crisis, 326,907 workers in the agricultural sector migrated to the manufacturing sector, while the number of migrants moving from the agricultural sector to the construction, commerce, and service sectors accounted for 531,491, 215,211, and 130,277 workers, respectively.

However, in the first quarter of 1998, five to eight months after the floating of the Thai baht, migration out of the agricultural sector to other industries drastically declined. While migration to the manufacturing sector slightly decreased (by approximately 32,100), that to the construction sector significantly dropped by 56 percent (from 0.5 million in the first quarter of 1997 to 0.2 million in the same period in 1998). Furthermore, the net outflow of workers to the service sector was negative in this period, that is, 5,844 workers moved from the service to the agricultural sector. Slow growth discouraged migration.

There was another major adjustment in labour migration, as the trend of labour to move from rural to urban areas, especially to Bangkok, reversed after the crisis. There were a number of workers, so-called temporary migrants, who moved to Bangkok to take up contract jobs, typically in the construction sector, but then returned to their former place of residence after the termination of their contracts. According to LFS data, the number of returned migrants, people from rural and other urban areas outside Bangkok who left Bangkok in the first quarter of 1997, was 623,000. The number significantly increased by 225,000 during the same period in the following year.

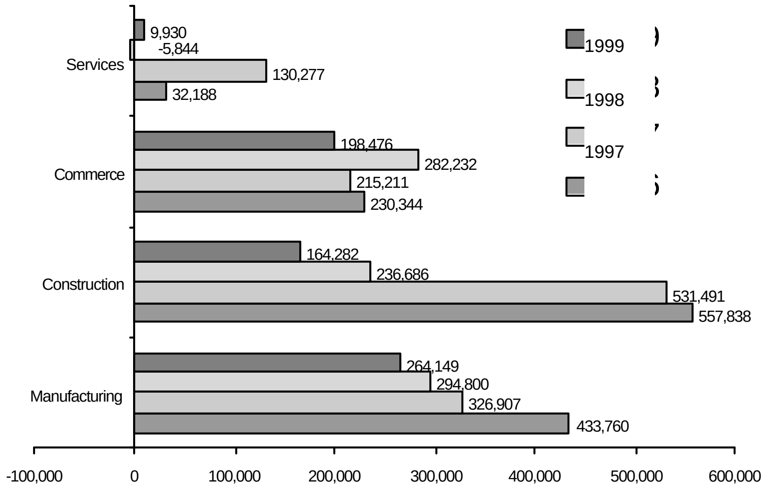
It is clear from the evidence that the labour market in Thailand adjusted to the economic crisis by sharply reducing the agriculture to non-agriculture labour flows that characterised Thai economic development during the 1990s (World Bank 2000d:17). It is also evident that a large-scale reverse migration took place, leading to an increasing number of unemployed people in rural areas.

Sauwalak (2000) investigated the migration data in 1999, a few years after the crisis. The situation in 1999 illustrated a reverse of the 1997-1998 trend. While the rural-urban migration in 1997-1998 had risen, it dropped significantly in 1999. The urban-rural migration trend greatly declined in the same year. This trend indicates that workers returned to urban areas for jobs, which were unavailable in rural areas.

4.2.6. Links Between the Labour Market, Poverty Reduction and Growth

Conceptually, the labour market, poverty reduction strategies and economic growth are interrelated and impact the incomes of the poor. On the other hand, economic growth, development strategies and consequent structural changes determine the level of employment, as well as wage rates.

Figure 4.4. Net Year-on-year Movement of Workers from Agriculture to Other Industries, First Quarter of 1996-1999



Source: Thailand Social Monitor, World Bank 2000a

As discussed earlier, there have been major structural changes in production, exports, and the labour market. These have occurred with the achievement of significant growth in Thailand's economy for the decades prior to the crisis. Even though the number of the poor tended to decrease over time, poverty remained and income distribution was worsened, as people with an upper level of income tended to gain more from economic growth.

This section provides a brief review of growth and poverty, in addition to the labour market, which has already been discussed. The intent is to explore a link between economic growth, poverty reduction, and the labour market in Thailand. The analysis concentrates on the period from 1988 to 1999, which covers the different situations prior to and after the crisis.

4.2.6.1. Economic Growth

From 1987 to 1996, the Gross Domestic Product (GDP) of Thailand increased at a dramatically high rate. While annual GDP growth from 1981 to 1986 was only 5.5 percent, the growth rate from 1987 to 1990 was more than 10 percent on the average. The average GDP growth rate slightly dropped to 8.5 percent from 1991 to 1995, and declined further to 5.9 percent in 1996, largely due to the slowdown in Thailand's exports. At the time of the crisis in 1997, Thailand experienced a negative growth rate of 1.7 percent for the first time in decades. Even worse, the drastic negative growth rate in the following year was as high as 10.2 percent.

As mentioned above, both production and exports of manufactured products have become increasingly important in Thailand's economy. Manufactured products share of total GDP and total exports significantly increased from 1970 to 1998, while agricultural products dramatically fell during the same period.

Considering GDP growth by sectors, GDP in the manufacturing sector significantly grew, especially, from 1987 to 1995, while GDP growth in the agricultural sector fluctuated, which can primarily be explained by uncertainties in a number of factors, for example, prices of agricultural products and weather conditions.

4.2.6.2. Poverty

The poor by definition are persons whose annual income is below the poverty line. Considering the proportion of the poor in each region to the total number of the poor, in 1994 and 1996, approximately 60 percent of the poor lived in the northeast, while Bangkok contributed the lowest proportion to total poverty (less than 1 percent during both periods). The proportion of the poor in the northeast, and the south fell from 60 percent and 14.2 percent in 1994, to 57.5 percent and 13.61 percent, respectively in 1996. In contrast, the share of the poor in the populations of the central and the northern regions slightly increased respectively from 9.4 percent and 16 percent in 1994, to 10.2 percent and 18.5 percent in 1996 (Table 4.17).

The head count index to total poverty in each area in 1994 and 1996 also indicated a decline in the proportion of the poor in Bangkok and urban areas. The lowest proportion of poverty was in Bangkok, 0.8 percent in 1994 and 0.3 percent in 1996, while those in rural areas were the highest (24.4 percent and 17 percent, respectively). The proportion of the poor in urban areas also significantly decreased during the same period, from 9.1 percent in 1994 to 3.9 percent in 1996 (Table 4.18). In terms of distribution, 90.3 percent and 97.5 percent of the poor were in rural areas in 1994 and 1996, respectively, while the poor in Bangkok and urban areas altogether were only 9.7 percent and 2.5 percent during the same periods.

Considering the education level of heads of households, persons with no education, and those with elementary education, altogether accounted for approximately 97.6 percent of the total in 1994. The proportion of persons with university education accounted for only 0.1 percent in the same year. In 1996, there were slight increases in the proportion of the poor with lower secondary, upper secondary, and vocational and technical education. Levels rose respectively from 1.6 percent, 0.4 percent, and 0.3 percent in 1994, to 2.6 percent, 0.9 percent, and 0.6 percent in 1996. This was accompanied by a general decrease in the poor with elementary and university education (Table 4.19).

With respect to production sectors, more than 74 percent of the poor were in agriculture in 1994, while those in manufacturing, construction, trade, transporta-

Table 4.17. Share of Poor Households by Regions, 1994 and 1996

	1994	1996
Bangkok	0.50	0.23
Central	9.40	10.15
North	16.00	18.48
Northeast	60.00	57.53
South	14.20	13.61

Source : 1994 Socio-economic Survey

tion, and services altogether accounted for about 11.5 percent of the total. While the proportion of the poor in the agricultural sector significantly declined to 50 percent in 1996, the proportion in other sectors tended to rise, especially in the trade and service sectors. The share of the poor in the trade sector increased from 2.5 percent in 1994 to 9 percent in 1996, and that of the service sector increased from 4 percent to 12.7 percent during the same periods (Table 4.20).

The proportion of the male poor to the total male population was slightly higher than that of the female poor in both periods. The proportion of the male poor declined from 19.2 percent in 1994 to 14.3 percent in 1996. Similarly, the proportion of the female poor to the total female population also fell from 16.9 percent in 1994 to 13 percent in 1996 (Table 4.21).

Table 4.18. Percentage of Households Under the Poverty Line by Total Population, by Areas, 1994 and 1996

	1994	1996
Bangkok	0.75	0.27
Urban	9.10	3.91
Rural	24.36	17.02

Source : 1994 Socio-economic Survey

From these statistics, it can be concluded that between 1994 and 1996, the majority of the poor were those living in the northeast, the north, and the south, which added up to around 90 percent of the total number of poor. In addition, more than 97 percent of the poor were in rural areas in all regions in 1996, and the majority of the poor were in the agricultural sector. Furthermore, persons with no formal education or with elementary education accounted for more than 95 percent of total poverty, and there was not much difference between the male and female poor.

Table 4.19. Percentage of Households Under the Poverty Line by Total Population, by Education 1994 and 1996

	1994	1996
None	29.77	27.00
Primary	20.61	14.83
Lower Secondary	4.82	5.69
Upper Secondary	2.90	5.22
Graduation	0.66	0.00
Vocational & Technical	1.76	2.25

Source : 1994 Socio-economic Survey

Poverty incidence

A study by the World Bank (2000e) attempts to illustrate the trend of poverty incidence in Thailand from 1988 to 1999 by employing four different measurements of poverty, which are the absolute number of the poor, their share of the total population, the poverty gap ratio,[14] and the average value of the square of the difference between incomes of those below the poverty line and the poverty line itself. Even though these measures capture different aspects of poverty, all measures move exactly in the same direction over time, in which poverty incidence tended to decline considerably up to 1996, but then increased in 1998 and 1999.

According to data from the National Economic and Social Development Board (NESDB), the number of the poor significantly decreased from 17.9 million in 1988 to 13.5 and 6.8 million in 1992 and 1996, respectively. Similarly, over the eight-year period, the share of the poor in the total population drastically fell by 21.2 percent, from 32.6 percent in 1988 to 11.4 percent in 1996. In other words, on average, each year 2.7 percent of the total population moved from incomes below the poverty line to incomes above it. Furthermore, the decreasing poverty gap ratio from 10.4 to 2.8 during the same period also indicates a decline in average difference between incomes of those below the poverty line and the poverty line itself.

Table 4.20. Share of Poor Households by Sector of Employment, 1994 and 1996

	1994	1996
Agriculture	74.34	49.97
Manufacturing	1.90	3.63
Construction	1.92	4.03
Industrial trades	2.48	9.00
Transport	1.21	2.24
Services	3.99	12.73
Inactive	14.17	18.35

Source : 1994 Socio-economic Survey

The poverty situation improved significantly from 1988 to 1996, during the same period as the GDP growth rate of Thailand surged to levels of more than 8 percent annually. However in 1988, a year after the crisis of 1997, all indexes of poverty showed a moderate increase and then significantly rose in 1999. The number of the poor increased by approximately 3 million from 1996 to 1999, while the

Table 4.21. Percentage of Households Under the Poverty Line by Total Population, by Sex 1994 and 1996

	1994	1996
Male	19.18	14.26
Female	16.93	13.04

Source : 1994 Socio-economic Survey

14 Poverty gap ratio measures the average difference between incomes of those below

proportion of the poor to total population in rural areas and in the northeast also rose respectively from 14.9 percent and 19.4 percent in 1996 to 21.5 percent and 30.8 percent in 1999.

While the population in rural areas accounted for only 68.5 percent of the total population in Thailand, the proportion of the poor in rural areas to the total number of the poor was as high as 92.6 percent. Similarly, more than 65 percent of the total number of the poor were people living in the northeast; the population share in the northeast accounted for only 34.4 percent. This in turn reflects the intensity of the poverty incidence in rural areas and in the northeastern region of Thailand.

Growth, the labour market and poverty reduction

It is quite apparent that during the period of high economic growth, poverty in Thailand decreased. Then, because the crisis resulted in negative GDP growth, the number of the poor increased. As such, there is a clear positive relationship between poverty alleviation and economic growth.

Table 4.22 shows annual GDP growth and annual changes in poverty incidence classified into rapid growth, medium growth and slow growth periods. Average GDP growth during the high growth period was 9 percent, and poverty incidence declined by 4.1 percent. Poverty incidence decreased by 2.6 percent during the medium growth period when average GDP growth was 5.7 percent *per annum*. During the period of slow growth, including the years after the crisis, GDP growth was only 1.4 percent *per annum*, and the poverty incidence rose by 0.8 percent.

It is not easy to establish the statistical relationship between GDP growth and poverty alleviation. While we have a long series of annual data on GDP, measures of poverty incidence were done from time to time, not on an annual basis. However, the World Bank (2000e) used econometric analysis to quantify the relationship between growth and poverty reduction employing data from 1962 to 1999. The sample size was small, covering 11 observations, because it includes only the periods when the poverty incidence variable was available. However, this exercise is highly informative.

Regression results confirm that growth and poverty reduction are correlated. The elasticity value was 0.49. This means that an increase of real GDP by 1 percent per year reduces poverty incidence by about one-half of 1 percent per year.

Trade liberalisation, i.e. tariff reduction, also moderately improves the poverty situation. The World Bank (2000e) reports simulation results from a research study employing a computable general equilibrium model. This model analysed the impact of a 10 percent tariff reduction. The results show that, with trade liberalisation, household income will increase and poverty will decline. Tariff reduction reallocates

Table 4.22. GDP Growth, Poverty Reduction

Year	Annual GDP growth	Annual change
	Rapid growth periods	
1986-88	9.75	-6.15
1988-90	10.27	-2.70
1992-94	7.01	-3.45
Average	9.01	-4.10
	Medium growth periods	
1962-69	5.08	-3.60
1990-92	6.47	-2.00
1994-96	6.44	-2.45
1975-81	4.87	-2.18
Average	5.71	-2.56
	Slow growth periods	
1969-75	4.15	-2.42
1981-86	3.67	1.88
1996-98	-6.5	0.80
1998-99	4.16	2.90
Average	1.37	0.79

Source: Adapted from Table 8, Warr 2000

resources from protective to non-protective sectors. The protective sectors are those which are capital-intensive and the non-protective sectors are light industries which are labour-intensive, and also the agriculture sector. Thus, trade liberalisation benefits workers because as incomes in labour-intensive sectors increase, the poverty of workers declines.

The Thai labour market adjusted well to GDP growth. Thailand not only established high GDP growth, but also progressed towards the status of a newly-industrialised country (NIC). Employment in the agricultural sector declined, while the manufacturing and service sectors rose. The correlation coefficient between real GDP and employment in the agriculture sector from 1989 to 1998 was negative, while the coefficients for other sectors were positive and close to one. This indicates a strong relation between employment and GDP growth (Table 4.23).

Between 1977 and 1999, employment in the agricultural sector had the highest share in total employment, despite a decline in the 1990s. Even though employment in the agricultural sector generally increased from 1977 to 1990, its share of total employment moderately declined during the same period. Both employment in the agricultural sector and its share of total employment, however, continued to decrease after 1990. In contrast, employment in the manufacturing, wholesale and retail trade, and service sectors generally increased between 1977 and 1999, both in terms of the number of employed and the proportion of total employment.

The movement of labour to more dynamic and higher-wage sectors elevates incomes and standards of living of workers.

Table 4.24 shows that the correlation coefficients between real GDP and real wages are all positive and close to one, implying that higher wages boost the in-

Table 4.23. Correlation Between Real GDP and Employment by Sector, 1989-1998

	Correlation
Agriculture	-0.91
Industry	0.99
Service	0.94
Total	0.87

Source : Labour Force Surveys, different years

comes of workers. Even wage rates of workers with low education improved. Table 4.25 shows that the growth rate of wages for workers with primary education was 18.7 percent from 1993 to 1997. The majority of workers in the manufacturing sector are primary-school educated; thus, they greatly benefited from economic growth.

Growth is not the only factor affecting poverty reduction. Government policy and quality of growth are also important. However, the above information clearly illustrates the strong positive relation between GDP growth and poverty reduction in the case of Thailand. The economic growth creates employment and higher wage rates. The Thai labour market is flexible, so it has facilitated the movement of labour from the agriculture sector to the more dynamic and high growth manufacturing and service sectors. Workers, therefore, can benefit from economic growth and structural changes. The recession, due to the crisis, undermined the poverty reduction process, and the government needed to initiate measures to cope with this.

Table 4.24. Correlation Between Real GDP and Real Wage by Sector, 1990-1998

	Correlation
Agriculture	0.91
Industry	0.88
Service	0.87
Total	0.93

Source : Labour Force Surveys, different years

4.3. The Labour Market and Adjustment to Crisis

4.3.1. The Asian Crisis and Consequences for Labour Markets

4.3.1.1. Nature and Cause of the Crisis

The 1997 crisis in Thailand was the consequence of a number of complicated factors. These included a fragile financial system and vulnerability to the international economic environment. The former meant the country was vulnerable to speculative attack, while the latter required gaining the confidence of international markets and investors, as well as creating capacities to absorb external shocks.

Capital inflows to Thailand continuously increased during the 1990s, with short-term inflows as a major part of these. Constantly rising current account defi-

cits confirmed over-heating of the Thai economy. The major factors contributing to the vulnerable balance of payments situation were both capital account liberalisation and the international trade structure of Thailand. The domestic policy approach included implementation of tight monetary policies effecting a relatively higher domestic interest rate.

Table. 4.25. Growth Rate of Wages by Type of Education from 1993-1997

	Growth Rate (%)
No education & unknown	16.07
Primary	18.67
Lower Secondary	11.45
Upper Secondary	13.76
Upper & Lower Vocational	13.35
University	13.77

Source : Labour Force Surveys, different years

Despite relatively high domestic interest rates, demand for loans increased as a result of over-optimism about the potential for profits in the real estate sector. Financial institutions became vulnerable because they accepted as collateral, real estate assets, which were significantly inflated in value. The combination of an inflexible fiscal policy, inappropriate lending practices and excessive demand for loans, meant that the economy had to rely on short-term external borrowing. However, these conditions would not necessarily have led to the crisis, had a mistake not been made in maintaining a fixed exchange-rate at a time of international financial liberalisation. When speculators began to attack the Thai baht, the government had no choice but to devalue the currency.

4.3.1.2. Consequences for the Labour Market

The severity of the impact of a financial crisis on labour depends on three major elements. The first is the flexibility of quantity adjustment by the groups and/or industries directly affected by the crisis. The flexibility of employment can cooperatively happen between employers and workers. Firms can adjust their production process to maintain the level of employment, while the workers can reduce their working hours to minimise the cost of production. The second is the flexibility of wage adjustment, which provides firms the option of reducing their operating costs and consequently minimising the impact of the crisis on employment. The final factor is the structure of the economy. Thailand has relatively large agricultural and informal sectors, which are more likely to be able to absorb workers from other sectors who are directly effected by the crisis. In addition, government assistance in the form of various kinds of policies can also reduce the impact of the crisis on labour. The study of the impact of the crisis in this section consists of five parts. These are the impact of the crisis on employment, unemployment, underemployment, the labour force, and real wages. The analysis will proceed by comparing the

above five indicators in rounds two, three, and four during the crisis, to the same indicators before the crisis.

Impact of the crisis on employment

The construction sector, as a major part of the real-estate-driven “bubble” economy, was the most severely damaged by the crisis. Table 4.26, which compares the percentage change of average sectoral GDP in eight quarters before and during the crisis, indicates that GDP in the construction, commerce and service sectors declined 53.1 percent, 12.4 percent, and 10.1 percent, respectively. The industries that were less involved during the “bubble” period before the crisis, such as the agriculture, mining, and electricity, gas and water supply sectors, had an increasing percentage of average sectoral GDP.

The crisis had a similar impact on the labour market. Workers in the construction sector were the most seriously affected. The negative results of the “bubble” economy also affected employment in the manufacturing and transportation sectors, but not in the electric, gas and water, commerce and service sectors. As seen in Table 4.27, the percentage changes of average employment in the construction sector between 1995 and 1999 decreased respectively by 35.6 percent, 41 percent, and 39 percent, according to data from rounds two, three, and four. For the agricultural sector, even though its sectoral GDP increased insignificantly by 1.3 percent, compared with the average GDP, the crisis had an ambiguous impact on employment in this sector which normally employs 40 to 50 percent of the total workforce. For short and medium periods of comparison, average employment in the agricultural sector during the crisis period slightly increased by approximately 0.2 percent (two-round average) and 1.1 percent (three-round average). But, for a longer-term impact, average employment in the agriculture sector during the crisis decreased 1.6 percent when the comparison was extended to round four of the survey.

Similar to data on the construction industry, data from the labour force survey, which were classified by occupation, indicated that craftsmen and production workers were the most-severely affected. Their average employment during the crisis decreased respectively by 14.4 percent (in a two-round average), 17.2 percent (in a three-round average), and 15.2 percent (in a four-round average). Clerical, transport and communication workers also suffered from the crisis. Average employment in all other groups of occupations, except agricultural workers, increased during the crisis. Professional and technical occupations experienced the largest percentage increase (12.9 percent, 20.4 percent, and 21.9 percent for the different round averages). The impact of the crisis on farmers and fishermen could not be unambiguously judged. The average employment of agricultural workers increased during the crisis period for the short and medium terms, but the outcome was reversed when the comparison was extended to a longer period.

Table 4.26. Gross Domestic Product at 1998 Prices

millions of

	Pre Crisis								
	1995 Q3	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	
Agriculture	54,017.90	100,237.89	76,545.98	55,042.86	57,165.40	101,782.78	80,545.87	55,532.65	
Mining and Quarrying	11,656.45	10,625.31	11,593.01	12,290.12	13,771.68	14,790.18	13,657.18	14,533.81	
Manufacturing	239,754.56	240,367.76	253,438.87	250,155.79	256,578.14	251,407.21	268,613.25	255,971.05	
Construction	48,931.67	45,136.94	49,443.18	49,330.88	52,809.10	46,840.84	33,967.10	36,720.96	
Electricity, Gas, Water Supply	19,574.88	20,061.58	19,706.36	21,481.38	21,087.04	20,475.22	20,380.78	23,192.63	
Transport, Storage & Comm.	56,536.05	64,639.29	64,320.43	67,547.50	68,451.45	67,418.62	67,925.38	69,224.94	
Commerce	155,569.32	160,495.96	156,267.50	166,121.89	159,689.74	155,048.87	157,229.74	159,346.58	
Services	132,713.92	135,817.12	135,881.02	140,261.09	146,104.64	146,471.26	135,975.16	142,620.17	
Gross Domestic Product	718,754.75	777,381.85	767,196.35	762,231.51	775,657.19	804,234.98	778,294.46	757,142.79	
	After Crisis								
	1998 Q1 (p)	1998 Q2	1998 Q3	1998 Q4	1999 (p1) Q1	1999 Q2	1999 Q3	1999 Q4	% Change
Agriculture	79,497.30	51,081.42	55,276.75	102,730.53	83,825.20	54,695.76	60,458.08	101,050.99	1.33
Mining and Quarrying	13,801.80	13,587.13	14,546.04	13,683.04	13,815.70	14,602.57	15,545.81	15,620.72	11.94
Manufacturing	238,636.29	222,629.08	220,236.09	231,713.55	249,749.14	242,666.70	257,393.63	266,602.80	4.30
Construction	24,213.70	20,616.26	25,824.74	18,343.29	17,756.12	18,183.69	26,541.10	18,814.95	53.11
Electricity, Gas, Water Supply	21,540.20	22,935.49	21,037.91	18,958.40	20,492.07	21,798.91	23,108.89	21,537.96	3.28
Transport, Storage & Comm.	65,580.24	59,244.50	62,379.25	66,149.02	66,007.29	64,293.14	64,552.81	68,708.28	1.74
Commerce	140,040.84	132,153.72	132,503.35	135,693.09	149,079.03	138,012.02	140,338.43	144,093.42	12.43
Services	136,737.97	131,147.04	129,688.81	123,921.18	120,463.96	115,579.73	124,881.79	120,685.64	10.10
Gross Domestic Product	720,048.34	653,394.64	661,492.94	711,192.10	721,188.51	669,832.52	712,820.54	757,114.76	8.69

Note: p = preliminary based on annual figure, p1 = without annual figure. Source: National Accounts Division, National Economic and Social Development Board

The gender-specific impact of the crisis was also somewhat ambiguous. In a shorter-period comparison of employment before and during the crisis, the adverse effects of the crisis were greater for males than for females. However, in a longer-period comparison, these negative effects of the crisis on employment observably were greater for females (i.e. when the comparison was extended to four rounds of the survey. The percentage changes for males were –1.6 and –1.3, while the percentage changes of females were –1.4 and –0.9 for rounds two and three, respectively (Table 4.27). These comparisons indicate that employment during the crisis declined for both males and females, but to a greater degree for males. Nevertheless, the percentage change of employment in four periods before and during the crisis indicates that females employed during the crisis decreased 1.4 percent, which is larger than the 1.1 percent decrease for males.

The economic downturn in Thailand in 1997 clearly had a larger negative impact on employment in rural areas than in urban areas. Employment in urban areas actually increased after the arrival of the crisis, while employment in rural areas declined. Table 4.27 further shows positive percentage changes of average employment levels (2.3, 3 and 4.1 percent in urban areas in rounds two, three, and four, respectively). However, the percentage changes of average employment in rural areas were negative. Data from the labour force surveys also show that the northeastern region of Thailand was the hardest hit by the crisis in terms of employment, while the impact in Bangkok was the mildest. Employment in the north and northeast declined, but that of Bangkok, the central and the southern regions increased.

The impact of the crisis on employment was also unequally distributed across the different education groups. The less-educated had less ability to absorb the shock. Workers with an education less than secondary school decreased over the crisis period. In contrast, workers with higher secondary schooling experienced an increase in employment. This implies that persons with higher levels of education can be more flexible in terms of quantity adjustment, and therefore, the severity of the crisis's impact on their employment would be milder. This argument can be further applied to the analysis of employment classified by age. The adverse effects of the crisis were smaller for older workers than for younger. The younger workers were less flexible in adjusting to the loss of their jobs. Thus, the employment of these groups decreased during the crisis. The average employment of workers aged less than 29 decreased in all rounds of comparison – the opposite for workers older than 29. The average employment increased 4.3 percent, 6.7 percent, and 8.4 percent for workers between 40 to 49, and also expanded 2.5 percent, 4.3 percent, and 4.5 percent for workers aged 50-59 years in all rounds of the survey.

Impact of the crisis on unemployment

The negative consequence of the crisis on unemployment was unevenly spread over every sector with a moderate degree of severity. Despite its sectoral GDP growth,

in the short and medium periods, the mining sector was hit the hardest by the crisis in terms of unemployment. Average unemployment in this industry increased 546.4 percent and 323.7 percent in rounds two and three, respectively, from before and during the crisis. Unemployment in the agriculture sector increased about 90-100 percent, but was considered as almost the lowest among all sectors. Average unemployment classified by occupation showed that unemployment among farmers and fishermen increased by the smallest amount compared to other occupations. In medium- and long-term comparison of average unemployment during and before the crisis, administrative and professional employees were the groups of occupations that suffered the most. Average unemployment of administrators during the crisis increased 600.3 percent and 745.2 percent, while unemployment of professionals expanded to 403.9 percent and 384.3 percent in rounds three and four.

In terms of unemployment, the negative effects of the crisis were larger for males than for females. Table 4.28 shows an increase in average unemployment for both males and females during crisis period, but the magnitude of unemployment for males was greater than for females. Average unemployment of males during the crisis period increased 123 percent, 182.6 percent, and 189.9 percent. For females, the increase was 68.6 percent, 129.2 percent, and 125.6 percent for rounds two, three, and four of the survey. Statistics also indicate larger disturbing consequences of the crisis on unemployment in urban areas. Average unemployment during the crisis increased substantially more in urban than in the rural areas for all rounds of comparison. The data on unemployment also showed that Bangkok had the largest increase in unemployment, while the southern region experienced the smallest. For all periods of comparison, the average unemployment during the crisis period in Bangkok increased 200.2 percent, 243.7 percent, and 278.3 percent, but the same data on the southern region indicated an expansion of 91.1 percent, 108.6 percent, and 96.7 percent.

As mentioned above, the severity of the impact of the crisis on labour partially depended on the ability of quantity adjustment. Younger workers and those with less education supposedly carried a higher burden of negative effects, since they seemed to be less flexible. Nevertheless, during the economic downturn, workers with the least education and the youngest employees experienced the smallest increase in unemployment, while workers with middle level education and of middle-age were the most seriously affected. Uneducated workers experienced an increase in unemployment of 64.1 percent, 46.9 percent, and 41 percent, while the average unemployment of workers with university education increased 175.8 percent, 230.5 percent, and 243.9 percent for all three rounds of comparison. During the crisis, average unemployment of the youngest workers (aged 13-14), increased 32.2 percent and 4.1 percent for medium and long-term comparisons, and actually decreased 2.4 percent in round two.

Table 4.27. Employment, 1995-1999

	% Changes of Ave. in 2 Rounds	% Changes of Ave. in 3 Rounds	% of Changes of Ave. in 4 Rounds
Industry			
Agriculture	0.17	1.13	-1.60
Mining	-5.54	5.12	6.91
Manufacturing	-2.34	-2.29	-1.66
Construction	-35.57	-41.04	-39.10
Electricity, Gas, Water	16.51	12.33	7.56
Wholesale and Retail Trade	2.92	4.69	7.26
Transportation	-2.70	-0.18	-0.07
Services and Others	9.44	12.30	13.92
Total	-1.52	-1.10	-1.21
Occupation			
Professional, Technical	12.87	20.41	21.90
Administrative	4.54	9.47	13.56
Clerical Workers	4.55	-1.47	-2.14
Sales Workers	6.13	8.24	10.41
Agricultural and Mining Workers	0.07	1.12	-1.66
Transport and Communication	-6.70	-4.11	-4.13
Craftsmen and Production Workers	-14.40	-17.20	-15.22
Service, Sport and Recreation	3.00	5.84	7.88
Sex			
Male	-1.58	-1.30	-1.05
Female	-1.44	-0.86	-1.41
Total	-1.52	-1.10	-1.21
Location			
Rural	-2.49	-2.17	-2.56
Urban	2.26	2.98	4.14
Total	-1.52	-1.10	-1.21
Region			
Bangkok	2.72	2.38	3.35
Central	-0.24	0.65	1.19
North	-3.85	-2.55	-1.96
Northeast	-3.55	-4.19	-5.64
South	0.81	2.17	2.67
Total	-1.52	-1.10	-1.21
Education			
None	-17.70	-14.29	-12.17
Elementary	-6.72	-7.42	-8.69
Secondary	17.89	21.48	25.31
Vocational	6.44	7.41	6.54
University	18.76	22.86	27.92
Others	0.30	6.11	9.68
Total	-1.52	-1.10	-1.21
Age			
13-14	-5.28	-7.17	-19.92
15-16	-13.98	-19.73	-24.80
20-24	-8.89	-10.30	-11.13
25-29	-2.43	-2.07	-1.60
30-34	-0.47	0.02	0.15
35-39	-0.81	0.11	1.01
40-49	4.34	6.65	8.44
50-59	2.47	4.28	4.54
60 and Up	0.25	2.48	2.33
Total	-1.52	-1.10	-1.21

Source: Labour Force Surveys, different

Impact of the crisis on the labour force

The impact of the crisis on the labour force was serious in the construction sector. In terms of labour force decline, the construction sector was the only industry having a negative change in all rounds. The labour force in this sector decreased 27.6 percent, 33.2 percent, and 31.7 percent during the crisis period for all rounds.

Compared to the construction sector, the labour force in other industries mostly increased during the period of crisis in all three rounds of comparison. The electric, gas and water supply sector and the service sector had the largest increases in labour force. The labour force in the electric, gas and water supply industries increased 17.2 percent during the crisis for round two, while the labour force in the service sector rose 13.9 percent and 15.5 percent during the crisis for the third and fourth rounds. The labour force in the agricultural sector increased only 1.5 percent and 2.8 percent for rounds two and three, but decreased 0.1 percent when the comparison extended to round four.

Data on the labour force classified by occupation correspondingly exhibit a similar adverse impact of the crisis on those grouped by industry. Craftsmen and production workers, who mainly worked in the construction sector, also had the largest decline in the labour force. Transport and communication were also occupations which experienced a decrease in the labour force. Other groups, however, experienced a positive change during the crisis. Professional and technical occupations exhibited the largest increase in the labour force, with a rise of 14.9 percent, 22.8 percent, and 23.9 percent during the crisis for rounds two, three, and four. Agriculture workers also exhibited a similar change.

The crisis contributed to expansion of the male labour force in urban areas. During the crisis for rounds two, three, and four, the male labour force increased 1.4 percent, 2 percent, and 1.4 percent, but the female labour force increased 0.8 percent, 1.4 percent, and –0.2 percent. The labour force in urban areas increased 4.6 percent, 5.7 percent, and 5.2 percent, while rural areas expanded 0.3 percent, 0.7 percent, and –0.5 percent for all rounds, before and during the crisis. The data further shows that the labour force in the Bangkok area increased the most. Of all regions, the north is the only one which showed a decrease in the labour force during the crisis. Data on the impact of the crisis indicate that workers with low education and younger workers suffered the largest decline in employment.

Impact of the crisis on underemployment

During the crisis, underemployment increased in every industry except the electric, gas and water supply sector. Underemployment in the electric, gas and water supply sector declined 43.1 percent, 6.1 percent, and 2.6 percent during the crisis for all rounds (Table 4.29). Underemployment in the mining and manufacturing sector increased 230.8 percent, 695.7 percent, and 440.5 percent, which is the largest in-

Table 4.28. Unemployment, 1996-1999

	% Changes of Ave. in 2 Rounds	% Changes of Ave. in 3 Rounds	% of Changes of Ave. in 4 Rounds
Industry			
Agriculture	90.31	99.54	98.33
Mining	546.38	323.71	137.51
Manufacturing	260.49	239.66	242.84
Construction	266.69	265.33	257.23
Electricity, Gas, Water	294.38	64.82	90.52
Wholesale and Retail Trade	276.74	274.62	268.68
Transportation	295.55	306.51	214.41
Services and Others	166.20	160.73	191.11
Total	148.83	155.92	157.16
Occupation			
Professional, Technical	346.12	403.94	384.31
Administrative	288.54	600.25	745.23
Clerical Workers	328.48	342.09	314.86
Sales Workers	211.29	236.56	220.64
Agricultural and Mining Workers	90.34	99.57	99.08
Transport and Communication	161.97	164.70	174.99
Craftsmen and Production Workers	263.62	241.30	241.12
Service, Sport and Recreation	161.89	132.45	150.36
Total	148.83	155.92	157.16
Sex			
Male	123.00	182.64	189.94
Female	68.57	129.15	125.63
Total	95.45	155.93	157.19
Location			
Rural	142.53	146.00	144.39
Urban	181.97	214.01	231.00
Total	148.88	155.95	157.20
Region			
Bangkok	200.18	243.67	278.31
Central	164.43	170.10	157.47
North	159.63	112.51	108.00
Northeast	140.40	160.66	166.94
South	91.08	108.58	96.66
Total	148.83	155.92	157.16
Education			
None	64.11	46.89	40.98
Elementary	138.88	137.23	132.16
Secondary	196.41	223.57	246.44
Vocational	104.76	128.31	131.26
University	175.80	230.54	243.86
Others		1,154.63	1,358.10
Total	148.83	155.92	157.16
Age			
13-14	-2.38	32.15	4.09
15-16	116.99	110.85	121.51
20-24	129.66	136.14	144.99
25-29	146.02	160.96	160.68
30-34	189.62	193.14	196.37
35-39	233.46	248.23	234.43
40-49	252.78	235.76	232.73
50-59	131.23	156.59	139.60
60 and Up	59.58	91.98	62.00
Total	148.83	155.92	157.16

Source: Labour Force Surveys, different years

crement during the crisis. Underemployment grew the least in the agriculture sector, where the percentage changes of underemployment during the crisis period were 64.4 percent, 53.1 percent, and 54.6 percent. Underemployment increased in every occupational group and significantly varied from the largest increment in the clerical group (3033.6 percent, 2015.1 percent, and 1453.4 percent), to the smallest increment for farmers and fishermen (64.5 percent, 53.1 percent, and 54.7 percent).

The effect of the crisis in terms of increasing underemployment was equal for both males and females. But, the same effect was unevenly shared between rural and urban areas. Underemployment in rural areas rose 70.2 percent, 56.6 percent, and 55.3 percent, while underemployment in urban areas increased much more at 758.8 percent, 494.5 percent, and 347.2 percent. The impact of the crisis on underemployment was also unevenly distributed across regions. Bangkok had the largest increase in underemployment (2119.2 percent, 1377.6 percent, and 838.1 percent respectively), while the smallest increase took place in the northern region, (only 14.4 percent, 18.2 percent, and 23.1 percent for all three rounds during the crisis period). Comparison of rounds from before and during the crisis period also indicate that underemployment in Bangkok increased less in the longer term than in the shorter term. This information implies that underemployment in Bangkok was of a shorter duration after the crisis.

Unlike the other indicators, the largest impact of the crisis in terms of underemployment did not occur in either the less-educated workers or the younger workers. Workers with a university level of education and workers aged between 25-29 and 35-39 had the largest expansion of underemployment.

Impact of the crisis on real monthly wages

The impact of the crisis occurred less in terms of price adjustment than in terms of quantity adjustment. The real monthly wages for all types of workers declined only 0.8 percent, 0.2 percent, and 1.6 percent during the crisis for all rounds (Table 4.30). Among all industries, the transportation, and the electric, gas and water supply sectors were the only two industries with increasing real monthly wages during the crisis. Real monthly wages in the electric, gas and water supply sector increased 24.2 percent, 25.2 percent, and 22.5 percent, and real monthly wages in the transportation industry rose 12.9 percent, 13.1 percent, and 7.9 percent during the crisis. The largest reduction of real monthly wages occurred in the mining industry, where the real wages decreased 11.5 percent, 13.3 percent, and 18.9 percent in all rounds. In the short and medium term of comparisons, the sector with the smallest reduction in real monthly wages was the construction industry, whose real wages declined only 1.7 percent and 1.8 percent during the crisis for the second and third rounds. The adverse effect of the crisis in terms of wage adjustment was moderately

Table 4.29. Underemployment 1996-1999

	% Changes of Ave. in 2 Rounds	% Changes of Ave. in 3 Rounds	% of Changes of Ave. in 4 Rounds
Industry			
Agriculture	64.42	53.11	54.64
Mining	23.75	695.72	440.46
Manufacturing	574.62	343.78	247.65
Construction	94.53	31.13	61.32
Electricity, Gas, Water	-43.10	-6.10	-2.56
Wholesale and retail trade	157.12	118.00	96.69
Transportation	174.35	88.04	66.44
Services and others	103.18	106.76	84.61
Total	114.79	85.90	75.77
Occupation			
Professionals	79.14	104.47	93.24
Administrators	422.18	304.63	186.95
Clerical workers	3,033.61	2,015.10	1,453.43
Commercial workers	134.66	100.80	75.47
Agricultural and Mining workers	64.46	53.11	54.71
Transportation workers	225.27	122.52	97.13
Craftsmen and General labourers	375.69	228.84	185.50
Service and others	81.05	93.67	87.29
Total	114.79	85.90	75.77
Sex			
Male	112.24	85.26	77.44
Female	117.24	86.51	74.18
Total	114.79	85.90	75.77
Location			
Rural	70.18	56.58	55.30
Urban	758.77	494.50	347.23
Total	114.79	85.90	75.77
Region			
Bangkok	2,119.24	1,377.62	838.12
Central	76.29	68.77	63.98
North	14.39	18.15	23.12
Northeast	66.60	56.73	53.70
South	111.30	76.12	71.77
Total	114.79	85.90	75.77
Education			
None	131.51	68.95	63.66
Elementary	91.01	66.05	60.86
Secondary	166.02	150.80	119.85
Vocational	180.51	136.03	98.93
University	467.69	319.79	301.09
Others	109.21	-36.73	-37.68
Total	114.79	85.90	75.77
Age			
13-14	75.09	61.78	29.68
15-16	103.70	98.53	66.08
20-24	114.49	87.23	80.19
25-29	221.90	147.80	151.08
30-34	145.21	116.01	113.58
35-39	232.15	137.43	122.90
40-49	152.03	112.52	116.41
50-59	76.60	46.56	55.88
60 and Up	18.46	10.76	15.18
Total	114.79	85.90	75.77

Source: Labour Force Survey, different years

and evenly distributed across the occupation groups. The change in real monthly wages of all occupations varied from increasing 0.3 percent, to decreasing 14.8 percent.

In comparing genders, the real monthly wages of males declined only 0.3 percent, 0.1 percent, and 0.3 percent. However, the real monthly wages of females decreased 0.9 percent during the crisis for round two. But, in the longer term, the real monthly wages of females increased 0.6 percent and 0.5 percent when the comparison was extended to rounds three and four. The negative outcomes of the crisis in terms of real monthly wage reduction were larger in rural than in urban areas. The real monthly wages of workers in rural areas decreased 4.3 percent, 3.8 percent, and 4 percent. The real monthly wages in urban areas declined only 0.7 percent and 0.04 percent for the second and third rounds. However, the real monthly wages in urban areas insignificantly increased 0.1 percent when the comparison was conducted for round four. The impact of the crisis on the reduction of real wages was unevenly distributed across the regions. Bangkok and the north were the only two regions where real wages increased, while the central, northeastern and southern regions experienced a decline in real wages.

The data also exhibit a moderate and impartial effect of the crisis in terms of wage reduction across groups with different educational levels. All workers experienced a reduction in real wages regardless of education level. For all workers, the reduction of real monthly wages varied between 5.7 percent and 13.9 percent. The negative consequences of the crisis on real wage reduction effected workers aged 13-49, but older workers, aged 50 and older, experienced higher wages during the crisis.

4.4. Policies For Overcoming the Crisis, Promoting Growth and Reducing Poverty

4.4.1. Review of Policy Measures on the Labour Market, Growth and Poverty Reduction

4.4.1.1. Existing Labour Policy

To begin with, the government policy on the labour market as stated in the First Plan for Labour Development and Social Welfare in 1997-2001 (MOLSW 1996: Chapter 3) was broadly based on the old Constitution (1991). Article 82 in particular stipulates that the government shall promote employment among the working-age population, provide labour protection, particularly for child and female labourers, promote a labour relations system, and monitor fair wages for labour. The plan also adopted a policy guideline from the 8th National Economic and Social Development Plan (1997-2001) aimed at total human development or a people-centred development approach. The broad policy on labour and social welfare stated in the plan was at the ministerial level as follows:

Table 4.30. Real Monthly Wages, 1995-1999 (in constant 1994 prices)

	% Changes of Ave. in 2 Rounds	% Changes of Ave. in 3 Rounds	% of Changes of Ave. in 4 Rounds
Industry			
Agriculture	-5.49	-4.40	-3.08
Mining	-11.49	-13.29	-18.86
Manufacturing	-5.96	-5.46	-6.47
Construction	-1.73	-1.75	-5.68
Electricity, Gas, Water	24.20	25.21	22.51
Wholesale and retail trade	-4.80	-6.99	-7.06
Transportation	12.92	13.13	7.92
Services and others	-4.22	-4.63	-4.26
Total	-0.82	-0.19	-1.64
Occupation			
Professional, Technical	-7.85	-6.95	-5.52
Administrative	0.04	-9.95	-14.80
Clerical workers	-7.11	-9.88	-11.42
Sales workers	-2.64	-4.36	-3.30
Agricultural and Mining workers	-6.59	-5.76	-5.12
Transport and Communications	-2.50	-2.58	-3.24
Craftsmen and Production workers	-3.82	-3.70	-3.88
Service, Sport and Recreation	0.25	-1.99	-2.73
Total	-0.82	-0.19	-0.39
Sex			
Male	-0.25	-0.06	-0.30
Female	-0.850	0.55	0.49
Total	-0.82	-0.19	-0.39
Sex/Bonus (CPI/99)			
Male	9.10	6.05	4.14
Female	-10.15	-6.15	-4.62
Total	-0.96	-0.36	-0.53
Location			
Rural	-4.29	-3.82	-4.04
Urban	-0.71	-0.04	0.10
Total	-0.82	-0.19	-0.39
Region			
Bangkok	2.39	3.84	3.39
Central	-8.92	-9.23	-8.33
North	4.66	3.62	2.67
Northeast	-6.92	-3.80	-3.50
South	-3.65	-5.15	-5.81
Total	-0.82	-0.19	-0.39
Education			
None	-9.77	-7.97	-10.31
Elementary	-6.01	-5.96	-5.72
Secondary	-9.76	-10.67	-13.86
Vocational	-6.36	-7.00	-7.72
University	-9.09	-10.69	-9.60
Age			
13-14	-12.89	-5.70	-5.86
15-16	-5.82	-6.51	-7.05
20-24	-7.39	-7.62	-8.01
25-29	-7.78	-6.62	-6.10
30-34	-6.80	-6.29	-4.80
35-39	-2.91	-2.53	-4.29
40-49	-0.44	-1.54	-5.15
50-59	9.63	11.27	11.68
60 and Up	4.28	12.68	26.90
Total	-0.82	-0.19	-0.39

Source: Labour Force Surveys, different years

- Establish a foundation for the Ministry of Labour and Social Welfare to be for the people and by the people;
- Accelerate the ministry's operation to promote employment and increase income;
- Strengthen skill development in general, in upgrading and specialisation; and
- Build a foundation for social security for employers, employees and the disadvantaged.

In short, the labour market policy existing prior to the crisis aimed at employment promotion, labour relations, participation of the private sector, improvement of labour quality, fair wages, and labour welfare and security. The labour policy is, in fact, in line with economic growth and poverty reduction policies.

In the years of rapid GDP growth, Thailand relied primarily on economic growth, a flexible labour market, and informal networks of income transfer to reduce poverty. A flexible labour market facilitated the movement of labour to areas where jobs were being created, while strong familial ties ensured that the poor who remained behind were looked after. There were few direct transfers through public programmes. However, during the past two decades, Thailand achieved very impressive economic growth, with GDP growing at an annual rate of 8 percent. Consequently, the incidence of poverty declined rapidly. In 1988, as many as 17.9 million people were living in poverty and the number was reduced to a little less than 8 million by 1998. The trend in poverty reduction was in fact interrupted by the crisis. Poverty incidence measured by the head-count ratio increased by 19.8 percent, indicating that the number of the poor increased by more than one million between 1996 and 1998 (NESDB 1999:4).

4.4.1.2. Policy Responses to the Crisis

The economic policy response to the crisis, at the beginning, followed the IMF conditions in order to mitigate the inflationary pressure created by the weak baht and capital out-flow. To review, after the burst of the bubble in early July 1997, the government applied for the IMF rescue. The IMF rescue package was approved by the Fund's board on 11 August of the same year. Under the umbrella of the IMF, a US$17,200 million stand-by credit facility was made available for balance of payment support, and with disbursements made quarterly over almost three years, and contingent on Thailand meeting IMF performance requirements. The total sum included US$2,700 million from the World Bank and the Asian Development Bank to be used to enhance industrial competitiveness, improve capital markets, and mitigate social problems arising from the crisis and the austerity programmes.[15] Accord-

ingly, the economic policy responses were aimed at a twin strategy of macroeconomic stabilisation and deep structural reform.

The stabilisation programme, developed with assistance from the IMF, the World Bank, the Asian Development Bank, and other multilateral and bilateral partners, provided critical support for the balance of payments and for reform of the macroeconomic framework (World Bank 1999a:i). The programme of structural reform, on the other hand, consisted of a poverty-alleviation strategy, financial sector reform to restructure financial institutions and strengthen supervision, creation of an improved enabling environment for private sector development, environment protection and growth, and public sector reform. Out of these reforms, only the first, a poverty alleviation strategy, will be summarised, as it more directly addresses the issue of poverty reduction and employment.

4.4.1.3. Poverty Alleviation Strategy

The strategy was based on the premises that; first, and most importantly, the crisis showed how the Thai people made their own adjustments to the economic shock, mostly related to migration to rural areas, and the government should complement these adjustments rather than displace them; second, the crisis revealed that current policies were inadequate to reduce risks in the market economy, particularly for the poor; and third, the crisis revealed a lack of timely information concerning the impact of economic conditions on people's well-being.

The strategy delineated lessons of the crisis period for specific policies in three areas: public expenditure, transfer programmes, and insurance and saving-based programmes. In the area of public expenditure, for instance, it was pointed out that a guaranteed employment scheme may not work well in the case of Thailand due to migration and the flexibility of the labour market. Such schemes work best where there is wage rigidity and outright unemployment. On transfer programmes, though it may be right to worry that expansion of programmes with cash payments could undermine the social relations that served the country well in the current crisis, it was cautioned that the concern should not lead to opposition because: first, urbanisation always accompanies development, and a reduction in family ties may be inevitable; and second, the informal safety net and familial support may not be sufficient. On insurance and saving-based programmes, the crisis uncovered weaknesses in the severance pay system for dealing with the uninsured risk of unemployment. For example, the increase in demand for low-income health cards shows that private insurance for health care is inadequate to deal with the risk of ill-health. By and large, the lessons learned from the crisis reveal that unemployment, health and pensions are areas of substantial market failure and of relative weaknesses in govern-

15 It should also be noted that there was a change of government during this period.

ment policy, and should be the subject of serious policy analysis.

In the implementation of the poverty-alleviating strategies, the macroeconomic policy has incorporated safety nets for the purpose of alleviating unemployment problems and poverty. In this connection, a major step undertaken by the government to strengthen the social safety net was to endorse the revision of the 8th National Economic and Social Development Plan to better respond to the crisis along three major guidelines:

- Alleviation of unemployment problems in urban areas and promoting employment in the rural areas to absorb returning migrants;
- Assisting the underprivileged groups; and
- Preventing and alleviating social problems, especially drug use and crimes, as well as promoting commendable social values.

In December 1997, the Ministry of Labour and Social Welfare (MOLSW), in cooperation with relevant ministries formulated an Action Plan for the Alleviation of Unemployment Problems. The plan comprises measures to protect against lay-offs, and measures to mitigate unemployment problems. Measures to protect against lay-offs are: 1) mitigation of lay-offs by cost-saving measures on both sides, such as a temporary end to work on holidays and overtime work, shortening of working hours, wage reductions, and early retirement, 2) honestly explaining the situation to labour unions, and every party concerned, before implementing any measure, and 3) measures to solve liquidity problems of the private sector by listing affected enterprises and informing the Ministry of Finance and the Bank of Thailand.

The mitigation of unemployment as well as planned targets includes:[16]

Measure 1: *Rural Employment Creation*: This measure had the objectives of: 1) mitigating the unemployment problem in rural areas for a period of one year; and 2) creating additional cash income for rural households to supplement for loss of jobs. This measure had a target of creating 320,000 jobs within a nine-month period.

Measure 2: *Repatriation of Foreign Unregistered Workers*: This measure set a target to substitute 300,000 illegal foreign workers with Thai labour.

Measure 3: *Promotion of Employment in the Industrial Sector (Home Workers)*: This measure was aimed to: 1) support export-oriented firms as well as firms with high labour intensity; 2) promote rural/regional industrial activities to absorb those

16 MOLSW also initiated the 'National Committee on Lay-Off and Unemployment Alleviation' chaired by the Prime Minister to formulate measures and monitor the

'returned migrant' unemployed workers; 3) create employment opportunities. The target was set to maintain more than 500,000 employed persons in the sector, while creating job opportunities in the rural areas and for those unemployed persons.

Measure 4: *Promoting Thai Labour to Work Abroad*: The target was to send at least 210,000 Thai workers abroad.

Measure 5: *Project to Implement His Majesty the King's New Theory on Development*: This project was to help those 'returned migrant' unemployed persons who wanted to find a new way of living in the rural/agriculture sector, such that their occupation and income would be sustainable in the long run. The idea was to balance land use and water resources for agriculture in each particular agricultural household. In 1998, there were 8,000 workplaces to be given to 20,000 unemployed persons.

Measure 6: *Thais assist Thais*: This measure was aimed to mitigate the difficulties faced by the unemployed due to their rising cost of living, support the initiation of new occupations for the general public and unemployed persons, and expand the scope and marketing channels for goods produced by people in general.

Measure 7: *Project on New Occupations*: This measure coordinated and disseminated information about occupations, skill development, training, and counselling for mental relief. The target was as follows: 1) disseminating information to 120,000 laid-off workers and to new entrants into the labour force from the education system who could not find jobs; 2) extending opportunities to enter graduate-level education by creating 3,000 more seats; 3) providing skill training for self-employment for 7,000 persons; 4) hiring 1,000 graduates to work for local administrative bodies; and 5) creating job opportunities for 20,000 graduates.

Through the above mentioned measures, it was estimated that 1,137,221 direct jobs would be created, and indirect employment for 901,072 persons. The budget for these measures was roughly 9,000 million baht as direct expenses (MOLSW 1997).

An assessment: The above labour policy measures in response to the crisis were assessed in early 2000 by the Department of Environment and Natural Resources, Mahidol University and National Institute for Development Administration. The findings were not favourable due to problems in implementation.

- *The Thais assist Thais Project* could not find sufficient funds for the programme's management and monitoring. There was no market to absorb the products of the income-raising groups and lack of personnel to monitor the projects.
- *The Rural Employment Promotion Project* was faced with the slow process

of budget allocation in 1999. Implementing agencies could not force or find cooperation from construction contractors to hire more labourers. Local officials could not afford to monitor the project on a continuous basis, and, worst of all, most construction work under the project budget did not emphasise the employment of local people who were affected by the crisis.

- *Repatriation of Unregistered Foreign Labour Policy* was affected by uncertain government policy and lack of cooperation from the private sector in the effort to reduce the employment of foreign labour. Thai workers did not want the type of jobs offered and demanded higher wages (most firms pay less than minimum wage). Foreign labour laws had not been amended to respond to the policy, the immigration system was weak, and there was lack of coordination among concerned government agencies.
- *Promotion of Working Abroad Policy* (by providing employment services and soft loans, etc.). This did not work well due to the high cost of going abroad, and cheating by employment agents.
- *Employment in the Industrial Sector and the Home Workers Policy* was faced with the problem of a lack of trainers to provide industrial skills and a lack of confidence on the part of the industrial sector in the products produced by home-based workers.
- *New Development Theory Project* found problems with the process of selecting farmers to participate in the project, prospective participants withdrew from the project due to some conditions and lack of coordination between the local and central administrative agencies.

This assessment points to the difficulty in the implementation of public works or a guaranteed-employment-scheme approach which tries to reach the wider groups of workers who may not be in the formal employment system. This is related to a policy question of whether the system of unemployment insurance should not be specified in relation both to its administrative requirements and to its target group. A public works or a guaranteed-employment-scheme approach may be more appropriate for economies in which administrations are fragile, wage-earners are a small proportion of the workforce, and the pain of crisis and poverty is felt even more sharply by the self-employed. To continue on this policy debate, as shown earlier, the proportion of wage workers in Thailand has increased over time, except after the crisis. One advantage of unemployment insurance is its tendency to accelerate the rate of formal employment as well as to strengthen the economy's security system. Further, unemployment insurance will help strengthen the record of open unemployment, which is a key labour market measure for reinserting the unemployed into the workforce (Wickramasegara 1999:10).

The second loan package was the Social Investment Project, financed by the World Bank, the Overseas Economic Cooperation Fund of Japan (OECF, now JBIC), the Australian Agency for International Development (AusAID), and the United Nations Development Programme (UNDP). The Project financed expansions of selected government programmes to create jobs and provide services to the poor and unemployed.

The Project also financed a new Social Investment Fund to support community capacity-building, and a Regional Urban Development Fund to provide infrastructure loans to municipalities. International donors are considering follow-up loans to further support the government's efforts in employment generation, and the establishment of a more comprehensive social protection system.

Other measures: To avoid adverse impacts on employment, education and health as result of government austerity measures, the Thai government asked for additional assistance from the Asian Development Bank (ADB) and the World Bank (IBRD), in addition to the IMF stand-by credit arrangement. An additional loan from ADB of US$1,200 million was agreed upon. The World Bank approved US$300 million to solve the social problems caused by lay-offs and unemployment. Together with this, the cabinet decided on 27 January 1998 to disburse ADB funds of US$480 million to help set up programmes to impact social development.

In April 1998, the ADB approved a US$480 million loan for a social development programme in Thailand. The three priority areas that the loan targeted were employment, education, and public health. The programme's target group was the two million unemployed as estimated by the Ministry of Labour and Social Welfare, the Ministry of Interior, etc. Particularly targeted were people in the north and northeastern regions. Projects to be supported included job-creation schemes, such as the construction of small-scale reservoirs and canal improvement work. The loan was also allocated for tourism activities.

The World Bank, the Overseas Economic Cooperation Fund (OECF), and the United Nations Development Programme (UNDP) were the main sources of assistance for social development programmes, in addition to self-financing from the Royal Thai Government. About US$295 million was allocated to the agriculture, public health, labour, industry and interior ministries, the Bangkok Metropolitan Administration, and the Tourism Authority of Thailand. The Government Savings Bank managed another US$185 million, which was allocated through two main channels – the Regional Urban Development Fund project (RUDF) and the Social Investment Fund (SIF). The budget allocated through these two channels was managed under a new method known as the "bottom up" system. Unlike previous "top-down" funding schemes, this programme granted money for projects which aimed to strengthen community organisations.

The Social Investment Fund (SIF) is aimed at projects initiated by local community organisations, such as the Tambon Administration Organisation (TAO), municipalities, and other unofficial groups like cooperatives, women's groups, environmental groups, or groups associated with temples or schools. Projects under the SIF should promote the formation of a "civil society" all over the country at different levels. Meanwhile, the Government Savings Bank's Regional Urban Development Fund acts as a loan agency for municipalities nationwide for infrastructure projects, especially those concerning environmental protection. The cabinet decided to push forward on the social remedy action plan in May 1998. It intended to spend 16,000 million baht for this programme on social investment from the financial year (FY) 1998 budget. The government also intended to spend US$300 million from the World Bank and US$100 million from OECF to add to its own budget for social programmes. Furthermore, in FY 1999, the government allocated 5,000 million baht from the central budget in order to alleviate the impact of the financial crisis. The social programmes to be implemented by this budget were training programmes for unemployed workers and around 0.75 million students who were new labour-market entrants, and needed to be ready to work when the economy recovered. In May 1998, the government decided to extend medical insurance to unemployed persons. This coverage was extended for another six months.

In addition to the social programmes listed above, there have been several other programmes designed to promote job creation. These are as follows :

1) Loan Fund for small self-employed businesses: The fund is about 400 million baht, combining both ADB loans and funds from the government's annual budget. The unemployed and the poor can apply for a 20,000 baht loan from the Provincial Office of the Department of Public Welfare. This loan fund has been for people doing informal small business in the provinces.

2) Project on occupational training and retraining: There are many occupational training and retraining projects provided by public agencies and NGOs for the unemployed. These are to help find new jobs or to begin self-employment.

3) Loan projects for direct and indirect employment creation: There are about 773 governmental projects funded by the World Bank, ADB and OECF Loans, totalling 10,246.4 million baht. Of these 773 projects, 149 are construction projects with funding of 5,871.3 million baht; 36 are occupation and skill training projects with funding of 1,967.4 million baht; one is a direct employment project (hiring graduates as village volunteers) with funding of 852.0 million baht; one is a project on the King's model with funding of 778.1 million baht; and 585 are projects for agricultural job creation with funding of 2,010.2 million baht.

The rest of the loan was allocated to the Social Investment Project (SIP) (6,000 million baht), the Social Investment Fund (4,800 million baht), and the Urban De-

velopment Fund (1,200 million baht). These funds have been managed by the Government Savings Bank to provide grants for rural and urban people through their community mechanisms. Some of the above projects were implemented in 1998, while most of them were carried out in 1999.

4) Temporary employment of the unemployed by government: Recently, the Thai government asked for additional loans of US$1,450 million or about 53,000 million baht, from the World Bank (US$600 million) and the Japanese government under the Miyazawa Plan (US$850 million).This was for a programme to increase government spending in order to stimulate the domestic economy. This loan required the allocation of at least 30 percent of the loan to hire unskilled unemployed persons, and at least 20,000 million baht to help the poor and the elderly in urban and rural areas. On 30 March 1999, the Cabinet approved the guidelines to develop projects for disbursement of this loan according to the above criteria. The unemployed with a higher education were to be hired and trained, for example, to become tour guides at ancient sites, and a number of unemployed accountants were hired to help officials examine a valued-added tax form for tax refunding.

4.4.1.4. Government Monitoring System for Unemployment

The national labour force surveys conducted by the National Statistics Office are the major sources of reliable data on employment, unemployment and underemployment at the national and regional levels. Before the economic crisis, these surveys were carried out three times a year (February, May and August), but starting in 1998 a fourth round was added in November. The sample size for each of the February and August rounds is about 60,000 households, so that labour force estimates could be produced at the provincial level. The labour force surveys provide a great deal of information on unemployment, underemployment and seasonal unemployment that enables the government to monitor the country's unemployment situation and try to solve the problems of the unemployed.

Government monitoring of the laid-off

By the cabinet decision in June 1997, the Ministry of Labour and Social Welfare (MOLSW) set up the Centre for Assistance to Laid-off Workers (CALOW) in July 1997, which would act as "one-stop" service centre providing training referrals, counselling, and placement services. The centre collects data and information on lay-offs and unemployment. It studies, analyses, and proposes measures and remedies to counter the problem. It cooperates with other departments to help laid-off workers.

In September 1997, MOLSW introduced a system of reporting lay-offs and unemployment. This is very close to a labour-market information system. At the

provincial level, the labour welfare and protection officer works with the social welfare officer for the same province to obtain lists of enterprises in which lay-offs occur in order to verify the number of laid-off employees and assist them to obtain compensation according to the labour protection laws. The figures on lay-offs and compensation are submitted to the provincial governor, the director general, and CALOW, as well as reported to respective labour officers at the provincial level. These include the district employment officers, social welfare officers (for issuance of a medical care card for another six months extension), directors of skill development centres (to recruit for referral training, skill development or new placement training), public welfare officers (to provide minimum assistance), and to the Permanent Secretary's Office. For the Bangkok Metropolitan region, CALOW summarises all information and reports directly to a higher level. On the reporting form, the name of the enterprise and the type of business are recorded, in addition to the total number of employees, the numbers laid off, the date/month/year of the lay-off, and the assistance that has been given such as unpaid wages, compensation and other benefits.

Monitoring system for the rural unemployed

In addition to CALOW, the Community Unemployment Survey has been carried out by the Ministry of Interior to improve the government's information base on unemployment and underemployment. Through establishing consistent definitions and data gathering processes, the survey has improved understanding of rural labour markets and enhanced measures to address unemployment problems at community levels. To date, three surveys have been carried out on a national basis in rural areas (in March, April and June 1998). These surveys have generated an individual-level database at the village level that will support the efforts of MOLSW and other line ministries to target and assist disadvantaged people at the provincial, district, subdistrict, and village levels.

Selected monitoring efforts in the form of national committees

National Committee on Remedies for the Laid-off and the Unemployed: This Committee is chaired by the Prime Minister, with the MOLSW Permanent Secretary serving as the secretary. It is responsible for formulating an action plan to relieve those laid-off and unemployed, as well as monitoring their situation after implementation of the action plan.

Programme Coordination and Monitoring Committee: This is chaired by the Deputy Prime Minister, with the Secretary General, NESDB, serving as the secretary. The Committee is responsible for monitoring the Social Sector Programme loan from ADB.

National Social Policy Committee: This Committee is chaired by the Prime Minister and responsible for making policies to empower Thai society to respond to the economic crisis. NESDB's Chief Executive Planning Advisor serves as secretary.

Prosperity Decentralisation Policy Committee: This is chaired by the Prime Minister and assisted by the Secretary General of NESDB as secretary. It is responsible for rural economic and social rehabilitation to alleviate rural poverty and unemployment problems during the economic crisis and for monitoring the progress of the action plan.

Committee on the Social Investment Fund: The Committee is chaired by the former President of TDRI, Dr. Ammar Siamwalla, with the General Manager of the Government Savings Bank as its secretary. It is responsible for the approval of project proposals from community and civil organisations requesting funds allocated under the Social Investment Project, as well as for monitoring the progress of the approved projects.

Committee on Monitoring Programme Loans to Stimulate the Domestic Economy: This committee is under the chairmanship of the Director of the Budget Bureau and has the Office of Programme Administration of the Budget Bureau serving as the secretariat. It is responsible for monitoring the implementation of projects under this programme loan.

Financed through a combination of budget allocations and loans from the World Bank, the OECF of Japan, and the Asian Development Bank, the government initiated temporary, labour-intensive civil works programmes in both rural and urban areas consistent with regional unemployment and poverty patterns. These works included: school repairs; road, small dam and weir construction; rural industrial promotion; rehabilitation and expansion of small-scale irrigation projects; improvements in basic infrastructure to benefit tourism; and a village-centred development project which employs new labour market entrants as volunteers.

In addition to civil works projects, employment generation initiatives also focus on: the expansion of vocational and skills training programmes for the unemployed and new labour market entrants; occupational and income generating promotion; foreign worker supervision; promotion of overseas employment; and loans for employment promotion and the establishment of an employment information system. With assistance under the Asian Development Bank's Social Sector Programme Loan, the Ministry of Labour and Social Welfare has launched Centres for Assistance to Laid-off Workers – a one-stop service centre to help laid-off workers in the areas of severance pay, social security, placement and counselling services, training and low-interest loans. The subsidy for urban bus and rail fares is being maintained to protect urban low-income workers.

A second pillar of the government's social protection efforts has been the protection of social sector expenditures during the period of fiscal restraint, and the targeting of public-financed programmes for those least able to pay. With the adoption more recently of a fiscal stimulus package under the Fifth Letter of Intent with the International Monetary Fund, the majority of new investment will be allocated to social protection.

Although in the year following the crisis, overall budget appropriations for social welfare services declined, allocations to key programmes targeted to the most vulnerable groups were maintained or increased. Scholarship and loan programmes to minimise student dropouts were expanded and this, combined with the commitment of Thai families to education, has helped explain the relatively-low increase in dropout rates. The number of children receiving school meals has increased. Operational budgets for teacher training and instructional materials were protected.

Financing for the Public Assistance Scheme (low-income health card) was increased and coverage expanded in response to the substantial increase of enrolments in the programme. Maternal and child health activities were also protected. Immunisation and prevention programmes were extended. Health staff were redeployed to rural areas. Responsibility for resource management was decentralised to universities and vocational schools, with increased powers to provinces and municipalities.

A substantial amount of the 1999 budget was allocated towards social expenditures. In addition to job training and labour-intensive projects, the budgetary allocation to the secondary education loan programme was increased which helped supplement the ADB-financed primary education projects. The school lunch programme was expanded significantly. Opportunities for the unemployed to become entrepreneurs through expanded small loan facilities and training programmes were strengthened.

As traditional family and community-level coping mechanisms were expected to become strained by the crisis and the sharp drop in people's incomes, much discussion has centred on the adequacy of existing unemployment assistance benefits and pension schemes. Such savings or tax-based social insurance programmes pose a dilemma for policy makers due to the impact of new taxes or additional savings in the midst of substantial economic downturn.

Thailand relies on unemployment assistance benefits, notably severance pay requirements, as opposed to an unemployment insurance scheme. Prior to August 1998, employers were required to pay laid-off workers with a minimum of three years service a severance package equal to six months of wages. As of August 1998 and coincident with the crisis,[17] the maximum severance pay requirement for employees with more than ten years of service was increased from six to ten months.

17 The adjustment was worked out before the crisis.

The extent to which severance requirements were being implemented during the crisis is open to question. Government is establishing a public compensation fund to ensure that workers dismissed from firms facing bankruptcy receive adequate cash severance support. This fund is financed by fines imposed for violation of the Labour Protection Act. In addition, a Workman's Compensation Fund reduces risks of income loss for workers in the formal sector. Employers alone contribute to the Fund. In 1996, total contributions exceeded total claims payments (TDRI 1998).

Formerly, Thailand's pension benefits were available only to civil servants, while some larger firms offered provident funds. Other benefits (medical, maternity, disability and funeral), but not pension, were extended to firms with at least ten employees. After the crisis, the government extended social security benefits for the unemployed from six to 12 months and reduced the tripartite contribution rate for such benefits by one-third.

In late 1998, a more far-reaching change to the social security system was implemented, establishing pension and child allowance schemes for private sector employees. Due to the crisis, and hardships on employers and workers, the implementation plan phased in full contribution rates over several years. This was intended to minimise the impact of the new system. Questions remain about the long-term financial viability of the scheme, given the mandated benefits and contribution rates. A child allowance scheme uses general government revenues to finance benefits for children of only enrolled families (a relatively well-off group according to IMF and World Bank estimates). A further step has been undertaken to extend the coverage of social security to all establishments employing one person or more, starting 1 April 2001.

A critical and innovative element of Thailand's response to the social impacts of the crisis is support for decentralisation and community development, as articulated in the 8th Plan. At the policy and programme levels, the government has viewed the crisis as an opportunity to advance reforms towards decentralisation, better governance, community empowerment and the forging of broad development partnerships with civil society. The innovative approach is aimed at rebuilding and consolidating social capital eroded by economic growth and to strengthen the informal, community-based safety net.

In addition to their successful advocacy efforts, civil society organisations have played an increasingly important role in providing social protection at the community level. The Thai government, as well as donors, have allocated an increasing proportion of their budgets to civil society organisations in order to implement programmes, including HIV/AIDs prevention and treatment, care of the elderly, small- and medium-enterprise development, and environmental protection.

In response to the crisis, many new community-level initiatives have been sup-

ported by government as well as donors. The Social Policy Committee (SPC) created the Pattana Thai Foundation to channel over 40 million baht in government funds to: (1) conduct pilot projects to support local communities in establishing civic forums in every province; (2) set up community learning centres for social welfare services and sustainable development, and; (3) planning, monitoring and evaluation. The SPC has contracted the Local Development Institute, a Thai NGO, to coordinate the implementation of these activities by a large number of partners in civil society. In September 1998, the government, with the assistance of the World Bank, UNDP, and AusAID, launched a new initiative in this area, the Social Investment Fund, which provides grants to community-based organisations to undertake investments designed and implemented by the community.

Under the Thailand-United Nations Collaborative Action Plan (Thai-UNCAP), numerous United Nations agencies, including the UNDP, UNICEF, and the Food and Agriculture Organisation have undertaken community-led activities in pilot areas, with special attention to crisis impacts. Several bilateral donors have grant programmes which fund community-based activities, such as AusAid's Small Activities Scheme, the Canadian International Development Agency's Canada Fund and New Zealand's Small Projects Fund.

For the purpose of mitigating the social impact of the crisis, the government has obtained loans from the Asian Development Bank and the World Bank for a Social Sector Programme and a Social Investment Project, respectively. The programme was to be implemented over a four-year period, and the government has committed to three social policy areas: labour market and social welfare, education, and health. The Social Investment Project loan from the World Bank also requires the setting up of a Social Investment Fund to provide grants to community-based organisations to undertake activities designed and implemented by them (Siamwalla and Sopchochai 1998:23-4).

Minimum wages: The discussion on government labour policy response to the crisis cannot be complete without looking into minimum wages. One question to be addressed is whether the government's implementation of employment security and minimum wage regulations diminishes the poverty-reducing potential of the labour market by reducing the rate of expansion in wage employment. Evidence to be considered from the crisis period includes: (1) wages were adjusted downwards together with a reduction in working hours; (2) wage employment declined from 14.1 million in 1997 (round one) to 13.4 million and 12.9 million in 1998 and 1999, respectively, and it declined from 12.5 million in 1997 to 11.7 million in 1998, but increased to 12.3 million in 1999 (round three); and (3) although the minimum wage was last adjusted in January 1998, and over the period between 1995 and 1999, the minimum wage has been increased by 10.2 – 11.7 percent, a large number of workers still earn less than the minimum wage in Thailand. LFS data indicate that in 1999

(round three), 3.6 million workers, or 30.1 percent of all wage employees, earned less than the minimum wage. This figure is likely to be underestimated as it does not include foreign migrant workers, many of whom earn less than minimum wages. (World Bank 2000d:34). As such, it could be argued that, the rate of expansion of wage employment is not determined only by minimum wage, but also other factors, particularly economic expansion or contraction, as well as the workers particular skill or education. However, an analysis by the World Bank (2000e: 45) maintains that increasing minimum wages is not an effective instrument for reducing poverty.

4.5. Conclusions

This study has been undertaken with a view to exploring the links between labour markets, growth and poverty reduction in Thailand. It provides a review of the Thai labour market and trends, particularly with regard to the labour force, employment, wage employment, unemployment and underemployment, and labour migration. It also reviews policy responses to mitigate the impact of the crisis, promote growth or economic stability and recovery, and alleviate poverty.

Generally, the Thai labour market is highly seasonal and flexible, with movements of the labour force to and from the agricultural sector during the peak agricultural season and low season, respectively. The major sectors absorbing workers from the agricultural sector during the slack season are manufacturing, construction and services.

Wage employment in 1999 was 43.6 percent and 38.3 percent during the first quarter and third quarter, respectively. This shows consistent increases from 15.6 percent in 1970, to 20.2 percent in 1980, and to 26.7 percent in 1990. The proportion of those in wage employment was greater for males than for females (56 percent and 44 percent, respectively). The wage workers were relatively young, with the majority in the 25-39 age bracket. More than 80 percent of the wage workers were in non-agricultural sectors. More than one-half of wage workers had only upper elementary education. Wage levels were positively related to age.

Unemployment in Thailand was generally low, around 1 percent, until the Asian financial crisis. Reasons for the low unemployment rate include: first, a large proportion of the labour force are either own-account workers (self-employed) or unpaid family workers, mainly in agriculture; second, like in many other developing economies, the informal sector still plays an important role in providing employment opportunities for the labour force; and third, Thailand does not yet have an unemployment insurance system, which would encourage workers to report their unemployment.

The rate of severe underemployment was more than the unemployment rate.

The majority of the underemployed were the young and old. Females had higher rates of underemployment than males. Most of the underemployed were in the agricultural sector.

In summary, prior to the crisis there were substantial improvements in the structure of the labour force, employment, and wages, as the labour markets were flexible and labour continued to shift out of agriculture and other low-income activities. There were major employment shifts by sector and occupation. The proportion of the professional and technical workers had been increasing over time, reflecting technological upgrading and investment in human capital.

During the period of economic boom, Thai workers migrated from agriculture to the manufacturing and service sectors, and from rural-to-urban areas. After the crisis, there were major changes in the pattern of migration in Thailand – a decline in labour flows from agriculture to non-agricultural sectors, and a reverse trend of labour mobilisation towards rural areas. This led to an increasing number of unemployed people in rural areas.

However, the situation in 1999 illustrated a reverse of the 1997-1998 trend. While the rural-to-urban migration in 1997-1998 had risen, it dropped significantly in 1999. The urban-to-rural migration trend greatly declined in the same year. This trend indicated that workers returned to urban areas for job opportunities. It also implied the limitation of the rural labour market to absorb the returned migrants.

On the interrelationships among growth, poverty reduction, and the labour market, the statistics from the LFSs indicated that between 1994 and 1996, the majority of the poor in the northeast, the north, and the south of Thailand, altogether constituted around 90 percent of the total number of the poor. In addition, more than 97 percent of the poor were in rural areas in 1996, and the majority of the poor were in the agricultural sector. Furthermore, persons with no formal education and those with only elementary education accounted for more than 95 percent of total poverty, while there was not much difference between the male and female poor.

The poverty situation improved significantly from 1988 to 1996, as the GDP growth rate of Thailand surged by more than 8 percent annually during this period. However, after the crisis in 1997, all poverty indices tended to moderately increase in 1998, and then significantly rose in the following year. The number of the poor increased by approximately 3 million from 1996 to 1999, while the proportion of the poor to total population in rural areas and in the northeast also rose from 14.9 and 19.4 percent in 1996 to 21.5 and 30.8 percent in 1999, respectively.

It is apparent that during the period of high economic growth, poverty in Thailand was reduced. Then, because of the crisis and negative GDP growth, the number of the poor increased. There was a clear positive relationship between poverty alle-

viation and economic growth.

The regression results confirm that growth and poverty reduction is correlated. This suggests that an increase of real GDP by 1 percent per year reduces poverty incidence by about one-half of 1 percent per year. The study also estimated the elasticity of poverty reduction, with respect to GDP growth, by regressing the proportional change of poverty incidence with respect to GDP growth.

Economic growth created employment and higher wage rates. The Thai labour market was flexible, and it facilitated the movement of labour from the agriculture sector to the more dynamic and high growth manufacturing and service sectors. Workers, therefore, can obtain benefits from economic growth and structural changes.

An examination of the impact of the crisis on the labour market reveals that the construction sector and its workers were the most seriously hit by the crisis in terms of loss of employment. But, the extent to which the crisis impacted one gender more than the other is difficult to determine. Regarding the geographic impact of the crisis, employment declined in rural areas, but increased in urban areas. Younger workers and less-educated workers were impacted more severely than other groups.

The extent of unemployment caused by the crisis varied from moderate to severe. In the short and medium periods of comparison, mining was the sector hardest hit by loss of employment. Average rates of unemployment classified by occupation indicated that farmers and fishermen were the least affected compared to the other occupations. In terms of unemployment, the negative effects of the crisis were larger for males than for females. Nevertheless, during the economic downturn, workers with the least education and the youngest employees experienced the smallest increase in unemployment, while workers with a middle-level of education and of middle age were the most seriously affected in terms of unemployment.

The crisis in the labour market was severe in the construction sector. Craftsmen and production workers who worked mainly in the construction sector experienced the largest decline in their labour force. The crisis led to a greater increase in the labour participation of males compared to females, and to more participants in urban areas than in rural areas.

The data further show that the labour force in the Bangkok area increased the most. Data on the impact of the crisis indicates that younger workers and the less educated were more likely to lose their jobs. During the crisis, underemployment increased in every occupational group, and in every industry, except the electric, gas and water supply sector. The increase in underemployment was equally distributed among both males and females. But the same effect was evenly shared between rural and urban workers. Workers with a university level of education and workers aged

between 25-29 and 35-39 had the largest expansion of underemployment.

The impact of the crisis was smaller in terms of price adjustment than in terms of quantity adjustment. Among all industries, the transportation, and the electric, gas and water supply sectors were the only two industries with increasing real monthly wages during the crisis. The adverse effect of the crisis in terms of wage adjustment was moderately and evenly distributed across the occupation groups.

The crisis also contributed to an insignificant effect on wage adjustment across the genders. The negative outcomes of the crisis in terms of real monthly wage reduction were larger in rural areas than in urban areas. But, the impact of the crisis on reduction of real wages was unevenly distributed across the regions. The Bangkok area and the north were the only two regions that gained as a consequence of the crisis, while the central, northeastern and southern regions experienced a decline in real wages.

The data also show a moderate and impartial effect of the crisis in terms of wage reduction across groups with different educational levels. All workers experienced a reduction in real wages regardless of education level. The negative consequences of the crisis on real wage reduction occurred for workers between the ages 13 and 49, but workers aged 50 years and older experienced higher wages during the crisis.

On labour market policy in Thailand and measures to deal with the crisis, promote growth and reduce poverty, the study focused on the policy measures to alleviate unemployment problems and poverty. The introduction of social safety nets to mitigate the impact of the crisis on household income and poverty was high on the policy agenda. Some labour policy measures implemented by the government were found to be unsatisfactory.

Public works or a guaranteed-employment-scheme approach were not effectively implemented. Similarly, the policy on repatriation of unregistered foreign workers was poorly coordinated and enforced. An increase in minimum wages was not an effective instrument for reducing poverty, and the payment of minimum wages was not effectively enforced.

In conclusion, Thailand has an impressive growth history, with an improving labour market structure, as well as substantial poverty reduction. In many ways, however, the public sector was caught unprepared for the crisis, not only in terms of social safety nets and protection for the poor, but in such aspects as information, coordination and effective programmes for the vulnerable. The crisis has provided important lessons for the future and an opportunity to correct past mistakes.

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Chapter Five

The Labour Market in Vietnam: Growth, Poverty Reduction and Adjustment to Crisis

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5.1 Introduction

The 1990s have seen remarkable changes in the political, social and economic life of all Vietnamese. *Doimoi* (Renovation) policies initiated with a number of market-oriented reforms have brought about impressive economic growth rates of 7 to 8 percent annually. There has also been remarkable improvement in people's living standards, with poverty reducing from 25 percent in 1993, to 15 percent in 1998.

However, recent socio-economic developments, combined with the impact of the regional financial crisis, have created many problems that need to be solved. These include a rapid slowdown in the GDP growth rate, a high level of current-account deficit, a sharp fall in foreign direct investment, as well as an obvious increase in unemployment and underemployment, in both the cities and countryside. Furthermore, economic policies such as import-substitution and the domination of the state sector had have impacts on economic growth and employment. Conversely, unemployment and its combined consequences have become constraints on further development of the economy and improvement of people's living standards.

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The recent slowdown of the socio-economic development of Vietnam needs to be investigated. In addition, an assessment of recent developments and suggestions for further development of the economy should be put in the context of the regional financial crisis. Given these issues, it was thought that a study of the labour market with the dimensions of growth, poverty reduction and adjustment to the crisis, supported by standardised methodologies could help to identify problems and constraints on further development of the country's labour market.

A research team from the Central Institute for Economic Management (CIEM) and the Institute of Economics (IoE) embarked on this study with the general objective of exploring trends in the labour market, and links between labour-market trends and growth and poverty reduction. The study was also intended to examine the impact of the Asian financial crisis on Vietnam's labour market. The research was carried out as part of a larger research project on labour markets in Thailand and the Southeast Asia Transitional Economies (SEATEs). Support for the study was provided by the International Development Research Centre of Canada.

The specific objectives for the study were as follows:

- Examining the trends of Vietnam's labour market since the *Doimoi* by population, employment, underemployment, wage employment, real wages, net earnings of the self-employed and own-account workers, and labour migration, etc;
- Exploring the links between developments in the labour market and changes in economic growth and poverty alleviation;
- Revealing the impact of the financial crisis on the labour market, its supply and demand sides, as well as on the people's livelihood; and
- Reviewing the nature of labour-market policy and policy measures undertaken within the country, and its impact on improving people's livelihood opportunities and reducing poverty.

In addition to the introduction (Section 5.1), this chapter is structured into three main sections. Section 5.2 analyses the linkages between labour markets, growth and poverty reduction by investigating the country's factor endowments, changes in structural aspects of the country's labour market, and its recent trends. Section 5.3 focuses on the nature and causes of the regional crisis, and the consequences for the country's labour market. Section 5.4 is dedicated to reviewing the country's policy framework on the labour market, as well as its impact on the labour market, growth and poverty reduction. Some concluding remarks and policy recommendations for further improvement of labour-market development make up the last section of this chapter (5.5).

In conducting this research, data from different sources have been used. For instance, for most of the macro-economic indicators, data have been derived from the *Vietnam Annual Statistical Yearbooks* (GSO 1998; GSO 1999b). Analysis of labour-market trends is largely based on data from the two *Vietnam Living Standards Surveys* (VLSS) conducted in 1992/93 (SPC and GSO 1994) and in 1997/8 (SPC and GSO 1999). *The Census of Vietnam - Preliminary Results* (CCSC 1999) also provided relevant data, as have sources provided by the World Bank (1998; 1999; 2000a), the International Monetary Fund (IMF 2000), and other national and international organisations. These data illustrate the link between labour-market development, economic growth and poverty reduction in Vietnam over the last decade. It should be noted that, though annual surveys on *Status of labour - employment in Vietnam* have been conducted since 1996 by the Ministry of Labour, Invalids and Social Affairs (MOLISA), use of those data has been limited due both to constraints in access to the database, and inconsistency in the database's format.

5.2. Labour Markets, Growth, and Poverty Reduction

5.2.1. Economic Trends

The 1990s have seen fundamental changes in Vietnam's economy as it turned from a command-style economy to one that was market-based. Starting with prudent financial and fiscal programmes in the late 1980s and early 1990s, followed by economic restructuring programmes and other micro-level reforms, the economy has been stabilised after a decade of instability.

Economic reforms in the agricultural sector, which were characterised by allocating land to the farmer and phasing out state control over farm production, have brought about impressive improvement in production. Improvement in the sector has turned the country from an importer of rice into the second-largest rice exporter in the world.

Giving more autonomy to state firms in doing business, encouragement of private sector development, and creating an attractive business environment for foreign investors have improved development of the industrial and service sectors. In these sectors, private and foreign investors have become key players in development.

The 1990s also evidenced strong development of foreign trade in Vietnam. Although the country's foreign trade has suffered with the collapse of the former Soviet Union and Eastern European markets, and exclusion from the American market, the foreign trade performance of Vietnam has still achieved fast growth rates for both imports and exports (25 percent per year for the 1990s).

Economic development in the 1990s had a positive impact on macro-economic

indicators and social problems. The country has experienced high economic growth and controllable inflation rates (rather high in early 1990s), but very low in recent years (see Table 5.1). High economic growth has contributed to job creation and alleviation of unemployment. The unemployment rate in urban areas has been reduced from two digits in the late 1980s, to 6 to 7 percent in recent years. Poverty alleviation is another achievement of economic reforms. The ratio of the poor in the population, as seen in terms of food poverty, has reduced from 25 percent in 1993 to 15 percent in 1998.[1]

Economic reforms in the 1990s are important for the development of the economy, but these reforms do not seem to be enough. The slowing down of economic development, the fall in domestic and foreign investment, and decline in foreign trade in the past few years, are the result of both the impact of the regional financial crisis and the internal weakening of the economy. The country has been encountering inefficiency in the state economic sector where reforms have made only modest progress. The private sector still faces discrimination, and, as a result, its development is still below its potential. The slowing down of economic growth in the past few years, which has led to rising unemployment and falling incomes, has negatively impacted social development.

5.2.2. The Country's Factor Endowment

5.2.2.1. Large Population and its Relatively-high Growth Rate

Vietnam is a typical less-developed country, which is characterised by the large size of its population and low income *per capita*. Statistical data indicate that, by size of

Table 5.1. Macro-economic Indicators of Vietnam's Economy from 1994 to

	1994	1995	1996	1997	1998	1999 [a]	Average
GDP growth	8.8	9.5	9.3	8.1	5.8	4.8	7.7
- Agriculture	3.4	4.8	4.4	4.3	2.7	5.2	4.1
- Industry	13.4	13.6	14.5	12.6	10.3	7.7	12.0
- Services	9.6	9.8	8.8	7.1	4.2	2.3	7.0
Agriculture as total GDP share	24.0	24.3	24.1	22.5	22.5	22.3	23.3
Capital formation (% of GDP)	-	25.4	26.3	26.7	27.0	25.4	26.2
Export growth	35.8	34.4	33.2	26.6	1.9	23.3	25.9
Import growth	48.5	40.0	36.6	4.0	-0.8	1.1	21.6
Inflation rate	14.4	12.7	4.5	3.6	9.2	0.1	7.4
Unemployment rate*	6.1	6.4	5.9	6.0	6.9	7.4.	6.3

Note: a: estimated; *: rate for urban areas. Source: Statistical Yearbooks for 1995 to 2000

1 World Bank sources indicate a decline from 58 percent in 1993 to 37 percent in 1998. This measure is for overall poverty, and not just for food poverty.

population, Vietnam ranks thirteenth worldwide, and is second among Southeast Asian countries (after Indonesia). This is due to high rates of population growth over a long period. The country's population has doubled its size in 30 years. In the early 1960s, the country's population was just 30 million and it increased to 76.6 million by 1999. In recent years, a number of efforts have helped to control the birth rate – a great achievement recognised by various international organisations (Table 5.2). The large size of the population has both advantages and disadvantages. The large population has the advantage of supplying a large labour force, given a certain rate of labour force participation. But given the low level of economic development at the present time, a large population increases pressure to improve social and economic development.

Table 5.2. Vietnam's Population Growth

Year	Population (mid-year) (000 persons)	Growth Rate (%)	By Sex		By Area	
			Male	Female	Urban	Rural
1990	65905.8	-	32167	33738	12880	53026
1991	67162.8	1.91	32696	34466	13228	53935
1992	68450.0	1.92	33349	35101	13588	54862
1993	69768.2	1.93	34057	35711	13961	55807
1994	71041.2	1.82	34670	36372	14426	56616
1995	72108.8	1.50	35191	36918	14928	57181
1996	73199.6	1.51	35867	37333	15420	57780
1997	74314.3	1.52	36558	37756	16836	57479
1998	75453.6	1.53	37119	38335	17465	57989
1999	76618.4	1.54	37519	38809	18038	58580

Source: Based on the 1999 Population Census, GSO

What is more, a large population and a high rate of growth disadvantages Vietnam compared with other countries in terms of *per capita* natural and economic resource endowments. For example, Vietnam at $US344 has one of the lowest levels of income *per capita*: in 1998 just a bit higher than Cambodia's *per capita* income of US$240. Vietnam also has a high population density (228/sq km), compared to that of the Lao PDR (21/sq km), Cambodia (66/sq km), Indonesia (110/sq km), Malaysia (69/sq km), Thailand (120/sq km). It is very close to the level of the Philippines at 249/sq km (GSO 1999b).

Table 5.3. Labour/Land Ratio in Vietnam

Regions	1. Cultivable land area (ha)*	2. Population aged 15-64 (1.000	3. Adult population per ha (2/1)
Total	21728961.7	44780.2	0.49
1. North uplands	1250502.6	9077.7	0.14
2. Red River delta	3880583.4	7513.0	0.52
3. North central coast	5750268.0	5504.6	1.04
4. Central coast	2737491.7	8220.4	0.33
5. Central highlands	3275904.6	1554.6	2.11
6. Southeast	2272801.0	3663.8	0.62
7. Mekong River delta	2561410.4	9246.2	0.28

Sources: (*) The data are adapted from GSO statistical data on basic living standards and infrastructure in rural areas in

5.2.2.2. The Country's High and Uneven Population Density

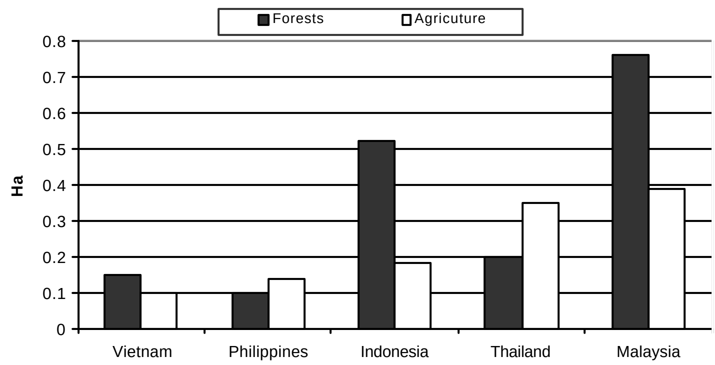
Another disadvantage in Vietnam is the high ratio of population, as well as labour force, living in rural areas and involved in the agricultural sector. For example, in 1999 (GSO 1999b), the ratio of the population living in rural areas of Vietnam was 76.5 percent, which is much higher than the average ratio of Southeast Asia (65 percent), and East Asia (62 percent). In addition to low *per capita* area, much of the land in Vietnam is not cultivable, as the forest and mountainous areas take up the main share of total area (approximately 60 percent). Consequently, the population is not evenly distributed nationwide. The least populous mountainous province has a *per capita* area about 44 times lower (see Table 5.3), than the most populous lowland province (27/sq km vs. 1194/sq km) and the ratios of labour/land are much higher – 63 times (11/sq km vs. 681 person/sq km). Offsetting these disadvantages, Vietnam possesses a huge ocean resource with 3200 km of coastline. The ocean and coastline should be a big advantage, not only as a source for development of marine industry, and sea transport, but also for its offshore oil and gas potential.

High population density and the landlessness associated with it, has provided impetus behind some of the government programmes on labour migration, as well as a cause for spontaneous migration of labour from one region to another.

Further, in contrast with the long-time belief of many Vietnamese, the country also is very much disadvantaged in terms of natural resource endowment. This may be seen very clearly in Figure 5.1, which shows the lowest levels of natural resource base *per capita* for Vietnam and the Philippines, compared to that of other neighbouring nations.

The labour force is advantaged with a relatively-high level of education and other positive human development indicators. While the income *per capita* in Viet-

Figure 5.1. Natural Resource Base (ha/capita)



Source: United Nations Development Program

Table 5.4. Literacy Rate of the Population 10 Years and Above by Age Group, Urban/Rural, and Gender (1997-1998) (%)

	Total	Gender	
		Male	Female
Total	89.47	93.65	85.62
Urban	94.13	97.05	91.60
Rural	88.01	92.63	83.69
15-17	95.64	95.42	95.85
18-24	93.52	93.43	93.62
25-34	93.46	94.01	92.97
35-39	95.17	95.78	94.62
40-44	92.80	95.77	90.18
45-49	91.37	95.21	88.11
50-54	88.71	96.43	82.25
55-59	84.76	93.68	77.57
60-64	77.66	99.92	66.79

Sources: VLSS 1997/1998, GSO

nam is among the lowest, its literacy rate and life expectancy are comparable even to high-income countries. In 1998, the literacy rate of Vietnam was about 90 percent, and average life expectancy was 68 years. These rates are high in comparison to nations with the same average income *per capita*.

Table 5.4 shows a gap in the literacy rate between rural and urban areas, as well as that between males and females. This is confirmed by the fact that the population in rural areas has less opportunity to access education, compared to that living in urban areas. Moreover, as in many other Asian countries, in Vietnam, females have less chance for an education due to traditional bias and gender discrimination.

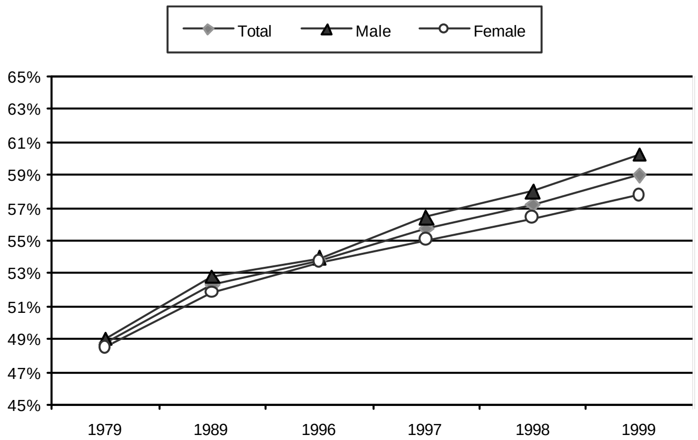
In Table 5.5, we see that among regions, there is uneven distribution of average years of schooling. As expected, the Red River delta, though it has the lowest ratio of adult population per hectare (0.14 ha/person), it has the highest number of years of schooling (7.4 years). Meanwhile, in the central highlands, where people possess 15 times more cultivable land *per capita* than people in the Red River delta, they also have, on average, three year's less of schooling.

Table 5.5. Average Years of Schooling

	1. Cultivable land area (ha)*	2. Population aged 15-64	3. Adult population per	4. Average years of	5. Number of years of schooling per ha
Total	21728961.7	44780.2	0.49	6.2	12.78
1. Northern uplands	1250502.6	9077.7	0.14	6.1	11.81
2. Red River delta	3880583.4	7513.0	0.52	7.4	53.72
3. North central coast	5750268.0	5504.6	1.04	6.7	6.41
4. Central coast	2737491.7	8220.4	0.33	5.6	16.82
5. Central highlands	3275904.6	1554.6	2.11	4.3	2.04
6. Southeast	2272801.0	3663.8	0.62	6.8	10.96
7. Mekong River delta	2561410.4	9246.2	0.28	5	18.05

Sources: * The data are adapted from GSO *Statistical Data on the Basic Situation and Infrastructure of Rural Regions in*

Figure 5.2. Share of Population at Working Age



Sources: Ministry of Labour, Invalids and Social Affairs, and the Population Censuses of 1979 and 1989

5.2.2.3. Labour Force Participation

As a consequence of the high rate of population growth in past decades, the percentage of the young in the population has substantially increased in recent years. Data from the 1999 Population Census have confirmed this. Groups aged 5-9 years, 10-14 years, and 15-19 years increased by more than 10 percent. Groups aged 5-9 years and 10-14 years increased by 12 percent, and the group aged 15-19 increased by 10.8 percent. However, the group aged 1-4 years increased less than other groups under age 35. This confirms the success of population control in recent years, and also suggests that if the future birth rate is kept as low as the present rate, the share of the population at working age will be reduced in the next ten years.

With the high ratio of young population groups, it is not surprising that the share of Vietnam's population of working age has been increasing rapidly in recent years (Figure 5.2). Over 20 years (from 1979 to 1999), the working-age population has risen from 48.7 percent to 59.0 percent, and this ratio still has not peaked (as the percentage of children aged 4-9 years is still very high, as mentioned above). It took from 1979 to 1989, for the working age population group to rise less than 4 percent, from 48.7 percent to 52.3 percent, but in the next ten years, from 1989 to 1999, this group increased by 6.7 percent (almost 1 percent per year).

While the proportion of the working age population has gone up rapidly, the ratio of labour force participation has been reduced. The data in Table 5.6 show a decline of the labour force participation rate from 90.8 percent in 1989 to 83.5 percent in 1999. Our calculations are a bit different than other sources. For example, based on the results of the living standards surveys, the General Statistical Office

(GSO) claims the rate of labour force participation increased substantially from 79.6 percent in 1993 to 86.4 percent in 1998 (GSO 1999a). The reason for this discrepancy is due to the fact that instead of calculating the labour force participation rate, the GSO has calculated the rate of the economically-active population over the working age population. Even calculated this way, our calculations show a declining trend. The trend has proved to be consistent with the point made by many labour economists, that with increasing improvements in living standards, more and more people prefer to stay outside the labour force for schooling, or for domestic work. The VLSS data also reflect this trend in both time and the rural/urban dimension. Bales (2000) has calculated the labour force participation for 1992/93 and 1997/98, and these calculations reveal that the male urban labour force participation rate for those aged 10 and over reduced from 69.3 percent to 66.8 percent, and the figures for females were 66.2 percent and 59.9 percent, respectively. The figure for rural male labour force participation for 1992/93 was 78.7 percent, and for females 75.2 percent. The figures for 1997/98 were 75.5 percent and 76 percent, respectively.

Although labour-market participation rates have declined slightly in recent years, the labour force participation rate in Vietnam is still substantially higher than in any other country in the region. The main contribution to the higher rate of labour force participation is the high rate of participation by females. As one can see in Table 5.7, while the rate of male participation is as high as other countries, the rate of female participation is substantially higher than in other countries. The high rate of labour force participation is confirmed by different sources of data: the Population Censuses, as well as Living Standards Surveys.

Table 5.6. Labour Force Participation

	1989			1999		
	Total	Male	Female	Total	Male	Female
Labour force participation rate at working						
Ratio of employed/population >15 year						
Ratio of employed/population at working						
Ratio of employed/ population (%)	54.5	44.1	45.1	47.7	50.0	45.5

Source: Based on 1989 and 1999 Population Censuses, GSO

5.3. Structure and Trends of the Vietnamese Labour Market

5.3.1. Employment

5.3.1.1. Employment by Age

The population groups that have the highest ratio of labour force participation are the groups with a high rate of employment. These groups are those aged 15 to 40, for both urban and rural areas. In other words, for the population of working age (15

Table 5.7. Labour Force Participation Rate Comparison (Age 15 and Older) (percentage)

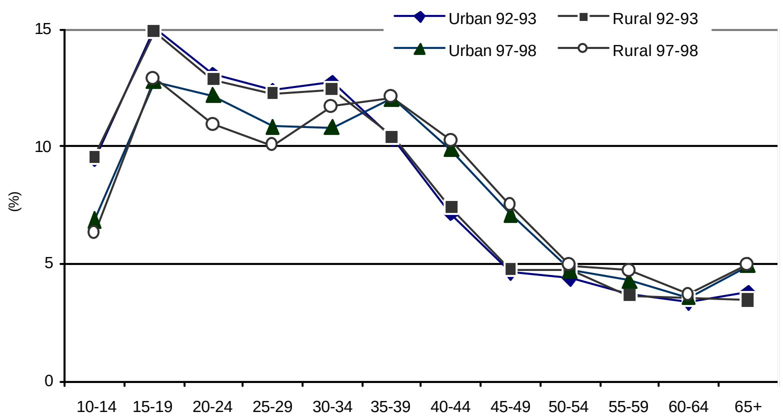
Country	Rate of participation (%)			Ratio of employed/population at working	
	Male	Female	Year	Male	Female
Vietnam	83.2	83.9	1999	79.3**	80.8
Bangladesh	98.0	56.0	1995-96	89.0	56.0
Cambodia	82.0	76.0	1996	77.0	85.0
China	85.0	73.0	1990	-	-
Indonesia	83.0	50.0	1997	85.0	51.0
Philippines	82.0	49.0	1997	83.0	49.0
Thailand	83.0	67.0	1997	84.0	65.0

Note: * Data are from the Statistical Yearbook 2000, ** GSO data are for 1999. Source: Bales 2000

and older) the younger the group, the higher rate of employment, and this is true for both 1992/93 and 1997/98, as one can see in Figure 5.3

Figure 5.3 shows that the share of young people employed reduced over time, and the share of older people increased from 1992 to 1998. This trend is consistent for both urban and rural areas in the period. A highly-possible reason for this fact is that along with economic development and improvement of living conditions, more and more young people continue their schooling, rather than join the labour force. This decline of the share of young people in total employment could be a reason for the decline of the labour force participation rate in recent years, compared to previous years, as discussed in an earlier section. The higher share of people aged 40-50 partly is due to a reduction in the young, and may be partly a result of disarmament in the early 1990s.

Figure 5.3. Employment Distribution by Age and Rural/urban Residence in 1992-93 and 1997-98



Source: VLSS 1992/93 and 1997/98, GSO

5.3.1.2. Employment by Education

As mentioned earlier, the literacy rate in Vietnam is relatively high compared to that of other nations with the same level of income *per capita*, and this rate is more than 90 percent. Consequently, most of the labour force of Vietnam is literate, and this rate, as shown in Table 5.8 is as high as the rate of literacy of the total population. As expected, the education level is higher in urban areas, and for males, than in rural areas and for females, and the same trend is seen for both the lowland and upland regions.

The education and training system in Vietnam has recently seen a reduction in vocational training. The percentage of workers with good vocational skills is very low in the total labour force. This, therefore, has led to a severe shortage of skilled labour. The number of university students is much higher than the number students in vocational and/or technical schools. For example, in 1995 the number of university students was 1.8 times higher than the number of students in the technical institutes or schools. This ratio was 3.0, 4.0, and 3.9 for 1996, 1997, and 1998, respectively. The gap between graduated students of universities and technical students has widened by 1.03 times for 1995, 1.32 times for 1996, 1.08 times for 1997, and 1.97 times for 1998 (GSO 1999b). In fact, vocational training has long been ignored by both the government and families. Most of the efforts of families are devoted to sending their children to university, rather than to technical or vocational school.

Table 5.8. Highest Diploma Attained of Population Aged 15 and Above by Region and by Sex in 1997-98 (%)

	Total	Urban Rural		Sex	
		Urban	Rural	Male	Female
Total	100.00	100.00	100.00	100.00	100.00
Never went to school	9.53	5.29	10.95	5.21	13.38
Primary diploma	50.75	38.54	54.83	49.09	52.22
Secondary diploma	29.76	35.31	27.91	33.01	26.86
Technical worker	3.11	5.31	2.37	4.01	2.30
Professional secondary	4.44	8.50	3.09	5.62	3.40
University and higher	2.41	7.05	0.86	3.00	1.81

Source: VLSS 1997-98, GSO 1999

5.3.1.3. Industrial Distribution of Employment

As in any other developing country where agriculture dominates the economy, most of the labour force in Vietnam works in the agricultural sector, though the significance of this share of the labour force has been gradually declining. As the GDP share of the agricultural sector has declined sharply from 41 percent in 1990 to 25.4 percent in 1999 (1.5 percent per year on average), the share of employment in the agricultural sector also has reduced at a rate of 0.7 percent per year. Data reveal a reduction of employment in the agricultural sector from 77.7 percent to 72.3 per-

cent of total productive employment for the period from 1990 to 1997 (Table 5.9).

At the same time, in the industry sector almost no increase in employment has been observed, and even a slight reduction is seen, though the share of GDP of this sector has kept growing. For example, from 1990 to 1997, the industrial sector absorbed about 10 percent of total employment. The ratio of industrial employment reduced from 10.8 percent to 10.2 percent of total productive employment in that period. There are several reasons leading to the decline of the industrial employment share. Firstly, the heavy industries under the import-substitution strategy, which were promoted in the 1990s, have not created jobs in the industrial sector. Secondly, the process of restructuring and reorganising state-owned enterprises (SOEs) has intensively taken place, and as a consequence, the number of workers in many of these restructured SOEs has declined. Theoretically, development of the private sector means the expansion of small and medium enterprises, which are more labour intensive, but in fact the share of employment in the formal non-state sector has reduced since 1990. The unfavourable business environment for private sector de-

Table 5.9. Employment Distribution and Employment Increment by h-

	1993	1994	1995	1996	1997	1993	1994	1995	1996	1997
	Share (%)					Increment (%)				
Productive Sector	93.6	92.9	92.5	92.6	92.8	2.5	2.1	2.4	3.5	3.6
Agriculture & Forestry	74.9	73.6	73.5	72.9	72.3	0.3	0.3	2.3	2.7	2.7
Service*	9.3	10.1	10.4	11.1	12.2	7.1	10.6	5.6	10.7	14.0
Industry	10.9	10.8	10.7	10.6	10.2	3.5	1.3	2.0	1.9	0.1
Construction	2.7	3.1	3.1	2.9	2.8	28.4	17.4	3.8	-2.1	0.2
Marine Products	1.6	1.8	1.9	1.9	1.8	67.2	15.3	6.4	3.7	1.1
Other	0.7	0.7	0.4	0.6	0.6	4.7	12.5	-40.9	51.1	0.5

Note: * Service includes transport trade and hotel & tourism. Source: Appendix of World Bank 2000b, with the data supplied by GSO

velopment is the main reason for the shrinking of private industry in the country.

Most employment in the productive sector has been absorbed into the service sector, including transport, retail sales, tourism, and the like. While the agricultural and industrial sectors had their employment share reduced, the service sector has increased its importance, and the employment share of the service sector increased from 8 percent in 1990 to 12.2 percent in 1997, or in other words, the sector has increased its importance by 0.5 percent per year for that period.

In addition to traditional industries, some other new or emerging industries also became more important in the sense that they have created many new jobs. Among newly-developed industries, construction, and marine products industries have impressively been increasing in importance. The share of employment in the construction industry was 2 percent in 1990 and 3.1 percent in 1995, then down to 2.8 percent in 1997, and the marine products industries raised their employment share

from 1 percent to 1.9 percent between 1990 and 1997.

Furthermore, though there is a big change in the economic structure of Vietnam toward industrialisation, its employment is still heavily dominated by the agricultural sector, which accounts for about 70 percent of total employment. The industrial sector's employment has been only about 10 percent of total employment, even though that sector contributes the biggest share to the GDP. The service sector's employment share, though it has been growing faster recently, is still modest, if compared to that of other economies in the region. Vietnam's employment pattern is one of the most backward compared to other neighbouring nations. For Vietnam, the share of employment in agriculture is the largest, and the share of service employment is the smallest.

More than that, the development of employment in the agricultural and service sectors in fact has been much different in rural and urban areas. The 1990s have seen the rapid reduction of agricultural employment in urban areas, both in its share and in absolute terms. The data from VLSS (SPC and GSO 1994; GSO 1999a) show a big reduction in the labour force working in the agricultural sector in urban areas, from 21.5 percent in 1992 to 13.4 percent in 1998, while in rural areas the employment share of the agriculture sector reduced only about 4 percent from 83 percent in 1992/93 to 79.2 percent in 1997/98. These surveys also reveal the boom in employment in the service sector in urban areas. The share of employment of this sector in urban areas increased from 47.8 percent in 1992/93 to 56.4 percent in 1997/98 (Bales 2000).

As mentioned above, the share of employment in the industrial sector did not change much in the past years, though the share of this sector in GDP has remarkably increased from 18 percent in 1990 to 28 percent in 1997, and about 25 percent in 1999. The imbalance between the GDP and employment-share increment of the industrial sector has confirmed the fact that the development of the industrial sector has become more capital-intensive, rather than labour-intensive. The explanation for capital-intensity-driven development of the industrial sector is the import-substitution industrialisation policy, which has focused mainly on developing the heavy industries of state enterprises. More than that, Vietnam's industrialisation strategy in recent years has ignored the employment issue. Labour-intensive industries in the 1990s have had growth rates much lower than the capital-intensive industries. For example, statistical data show that from 1990 to 1997, heavy industries grew at the rate of 189 percent, while light industries had a growth rate of only 90 percent. Even the most successful among the light industries attained a growth rate much lower compared with that of the heavy industries. For example, the textile and garment industries have grown at the rate of 92 percent, and the food processing industries at the rate of 112 percent from 1990 to 1997 vs. 189 percent for heavy industries (World Bank 2000a).

5.3.1.4. Employment by Ownership Sector

As shown in Table 5.10, the state sector's share of total employment in the economy as a whole has not changed much in recent years. The share of state employment has remained about less than 10 percent of the total (including both productive and non-productive sectors). In addition, the distribution of productive and non-productive state employment has stayed the same for the last few years.

State employment has gone up in industry and construction, while its share in agriculture and services has been reduced. This trend is totally in the opposite direction of employment distribution in the non-state sector.

With recent economic reform, the private sector has played a more important role in both GDP and employment share. In general, most of the discrimination policies against the private sector have been removed (though there are still some). It is hard to make the conclusion that the private sector in Vietnam now enjoys the same incentives as the state sector. More accurate examinations of employment development of the private sector have revealed that the share of employment in the agricultural sector has kept rising, while in other sectors, such as industry and construction, it has been declining. Employment in industry and construction in the private sector has declined in absolute terms, which means the rate of growth is negative. The reason is that a number of workers from private industry and construction have recently shifted to the service sector.

Note that in Table 5.11, the non-state sector also includes the foreign investment sector. If foreign investment is excluded, the reduction of employment in the private industrial and construction sectors should be more severe because most foreign investments are made in the industrial and construction sectors. This situation also is confirmed by data from the VLSSs in 1992/93 and 1997/98 (SPC and GSO 1994; GSO 1999a), where the ratio of wage employment in the private sector was down slightly from 60.4 percent to 59.5 percent, and the state-owned firms increased their share of employment from 15.5 percent to 16.5 percent (Bales 2000).

Table 5.10. Distribution and Growth Rate of State Employment

	1996	1997	1998	1996	1997	1998
	Share			Growth rate		
Total state sector	100.0	100.0	100.0	2.8	4.1	3.6
Productive sector	59.8	59.0	58.6	1.7	2.7	2.9
Of state productive sector						
- Agriculture, forestry and fisheries	13.7	13.3	12.2	-11.6	-0.5	-5.2
- Industry	41.9	41.9	42.5	4.4	2.5	4.4
- Construction	15.7	17.6	18.5	-0.7	15.0	8.7
- Services	28.7	27.3	26.7	6.7	-2.3	0.9
State employment/ total	8.8	8.8	8.8	-	-	-
State productive/ total employment	5.2	5.2	5.2	-	-	-

Source: Statistical Yearbook 2000

The service-oriented development of the private sector is understandable, as the private sector in Vietnam started to develop only in the early 1990s when the country started a shift from a centrally-planned to a more market-oriented economy. The sector is still very young, both in terms of capital endowment and business knowledge, though small service businesses do not require as much capital as industry. In addition to that, to some extent, the bias of government economic policies, which favour state industry enterprises, has made it difficult for private firms to compete in the industrial sector. Therefore, service businesses are the best choice for private firms, and, as a result, employment in the private service sector has increased faster than in industry.

Table 5.11. Distribution and Growth Rate of Non-State Employment

	1995	1996	1997	1998		1995	1996	1997	1998
	Annual percentage change					In percent of total			
Total	2.6	3.5	3.3	2.3		100	100	100	100
Agriculture	0.0	2.9	2.7	2.5		68.9	68.5	68.1	68.2
Industry/ Construction	5.1	0.4	-1.7	-1.7		10.2	9.9	9.4	9.0
Trade, transport	3.2	12.6	20.4	-		5.9	6.5	7.5	-
Education, health, art	-10.2	-0.6	-7.4	-		1.3	1.3	1.1	-
Other	59.6	9.5	2.0	-		4.8	5.1	5.0	-

Source: IMF 2000

5.3.1.5. Wage Employment

The wage-earner ratio is an indicator measuring the level of both labour market and economic development of a nation. A more developed country has a higher ratio of wage-earners, and conversely, a less-developed country has a smaller ratio of wage-earners. In Vietnam, like any less developed economy, the wage employment share is still very small: about 18 percent in agriculture and 40 percent in industry and services. In addition, in Vietnam, sometimes it is difficult to distinguish the wage-earner from the non-wage-earner because there is a group of employees who are both self-employed and wage-earners. This is especially striking for rural areas, where the number of wage-earners moves up and down from season to season, depending on availability of work (Table 5.12).

Although the share of wage-earners in total employment in Vietnam is small, there is an increasing trend observed in the ratio in the 1990s. From 1992 to 1998, the share of wage employment increased from 17.9 percent to 19.5 percent. Also, the high increment in the numbers of the non-farm self-employed also deserves attention. Their share increased up to 3.1 percent within those five years, while the same figure for the wage employed was only 1.6 percent. It should be noted that non-farm self-employment has also resulted in remarkable improvement in the earnings of rural people.

The industrial distribution of wage employment has changed over time with the reduction in the share of agricultural and industrial employment, and the increase of employment in the service and construction sectors. The reduction of the wage employment share in the industrial sector once again shows the nature of industrial development in the 1990s – a capital-intensive orientation, which has been confirmed by total employment data presented in the previous section (Table 5.13).

Table 5.12. Structure of Employment for Wage- and Non-Wage-Earner from VLSS 1997/1998 (Percentage)

	Rural		Urban		Male		Female		Total	
	1992	1998	1992	1998	1992	1998	1992	1998	1992	1998
Self-employed farm	78.02	74.28	17.95	10.46	65.71	58.27	66.94	64.84	66.35	61.67
Self-employed non-farm	9.82	12.61	40.35	44.27	12.83	17.46	18.4	20.16	15.75	18.85
Wage employment	12.16	13.11	41.7	45.28	21.46	24.27	14.66	15.00	17.90	19.48
Total	100	100	100	100	100	100	100	100	100	100

Source: VLSS 1997/98, GSO 2000.

5.3.1.6 Wage Trends

The Living Standards Surveys show that the wage rate in Vietnam is low. In 1992, the average monthly wage was just US$35, and in 1998 it was about US$45. The low wage rate also is confirmed by statistical data on state sector wages, which were about US$40 per month in 1998. As shown in Table 5.14, the wage differential between geographic regions of urban areas is much higher than in the rural areas, and the gap increased between 1992 to 1998. However, the wage differentials among geographic regions for the whole country are not so large, and did not increase much from 1992 to 1998 (the standard deviation increased from 0.4 to 0.5), and the wage ratio of the richest and the poorest (wage of the poorest/wage of the richest) even declined from 1992 to 1998 (0.95 to 1.24). The VLSS for 1992/93 (SPC and GSO 1994) revealed that the wage rate in urban areas was lower than in rural areas, and the gap was rather big except for the southeast and southern central coast areas. This needs further investigation.

In terms of wage rate, women have a lower rate than men, but the gap of the average wage between these two groups has narrowed. For example, in 1992/93 men

Table 5.13. Wage Employment Distribution and Growth Rates from 1992 to 1998

	Employment distribution			Employment distribution in 1997-			Growth rates (%)		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
Agriculture	41.4	8.6	26.6	30.0	3.0	17.6	-3.2	-17.4	-4.7
Industry	21.7	40.5	30.2	21.7	36.9	28.7	6.6	2.8	4.5
Construction	7.3	7.6	7.4	12.7	9.1	11.0	14.2	7.5	11.4
Services	29.5	43.4	35.8	35.6	51.0	42.7	7.0	7.0	7.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	3.3	3.7	3.5

Source: Bales 2000

Table 5.14. Monthly Average Wage by Region and by Residence – Urban/ Rural (Constant 1998 price)

(US$)	1992-93			1997-98		
	Rural	Urban	Total	Rural	Urban	Total
Northern uplands	43.3	24.5	35.5	42.3	45.8	43.6
Red River delta	48.5	40.1	45.3	51.8	58.2	54.2
Northern central coast	35.0	31.1	31.3	54.2	43.4	51.1
Southern central coast	37.2	46.7	41.8	44.6	42.6	43.9
Central highlands	42.3	-	42.3	44.4	-	44.4
Southeast	62.9	63.4	63.1	53.1	70.1	64.6
Mekong Delta	56.3	44.0	53.1	43.8	55.6	46.8
Total	50.2	47.7	49.2	47.8	59.1	52.4
Standard deviation	0.4	0.8	0.4	0.3	1.3	0.5

Note: Converted into monthly income in US$ with the exchange rate for 1992/93 (US$ 1 = 8500 VND and the exchange

earned 24 percent higher wages than women. This rate was reduced to 15 percent in 1997/98. However, the income gap between educated and non-educated groups has widened. In 1992/93 the gap between university-educated workers and those with less than primary schooling, was 1.3 times. In 1997/98, this gap increased to 2.3 times.

The service sector took the biggest share of employment to become the largest sector of wage employment in the 1990s. During the five years between the two surveys from 1992/93 to 1997/98, wages in the service sector increased 79 percent, while industry increased 57 percent, and agricultural 33 percent.

The high rate of wage increase in the service sector is a positive sign because it is expected the sector can absorb a major share of people seeking employment. More than that, the service sector is seen to be the most important one for the poor, as it offers them the best opportunity to improve their incomes. Findings of numerous studies on poverty reduction have shown that a rise in service sector employment is an important factor in poverty alleviation (see also Table 5.15).

5.3.2. Unemployment

It is difficult to estimate the unemployment rate nationwide (including rural areas), due to the fact that there are many different definitions of employment and unem-

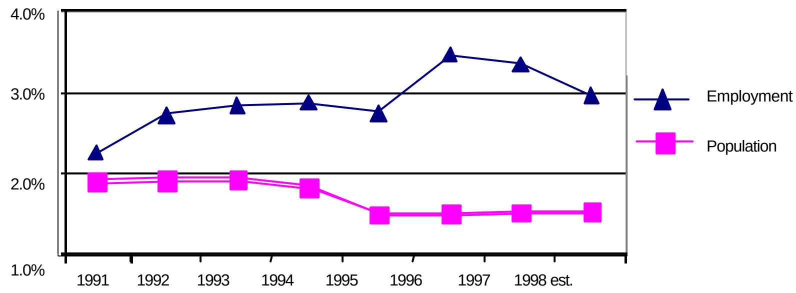
Table 5.15. Monthly Average Wage by Industry and Residence – Urban/

(constant 1998 price: US$)	1992-93			1997-98		
	Rural	Urban	Total	Rural	Urban	Total
Agriculture	52.4	56.0	52.9	47.3	55.4	47.8
Industry	50.2	48.9	49.7	49.1	56.6	53.1
Service	45.5	44.5	45.0	69.5	90.3	80.8
Total	50.2	47.7	49.2	70.2	86.9	77.1

Note: Converted into monthly income in US$ with the exchange rate of 1992/93 (US$ 1 = 8500 VND) and the exchange

ployment in use[2] in Vietnam. Nevertheless it is well-recognised that in the 1990s, before the Asian economic crisis occurred, explosive growth rates averaging about 7 percent per year, created a big demand for labour. In the decade of the 1990s, average employment growth was always 1 percent higher than the population growth rate. Figure 5.5 shows an increasing gap between employment growth and population growth, and this improvement comes from both sides; the population rate has been reduced and employment has been increasing. As a result of economic improvement in the early 1990s, unemployment in Vietnam was declining up to the onset of the regional economic crisis. The rate of unemployment in urban areas was reduced substantially from 13 percent in 1989 (1989 Population Census) to less than 6 percent prior to the crisis.

Figure 5.5. Annual Growth Rates of Population and Employment



Source: GSO 1999 and VLSS 1997-98

Reducing the rate of unemployment from 13 percent to 6 percent in urban areas is very impressive progress, and this is a result of good economic performance in the early and middle 1990s. Many economists believe that the rate of unemployment is underestimated. However, even if these rates are correct, they are still quite high as there is no social safety net for the unemployed in Vietnam. In the mid-1990s, there was little success in reducing unemployment, and in recent years, the unemployment rate has again been rising. This increase is believed to be a result of the slowing down in economic growth due to external impacts, of the capital-intensive development strategy of some industries, and of the weak performance of the private sector. In addition to the high and rising unemployment rate, underemployment is a stubborn issue in the countryside, where it has never been lower than 25 percent in recent years as shown in Table 5.16 (see also Table 5.17)

2 For example, the definitions given by MOLISA have stipulated that:

– Unemployed people include the economically-active population aged 15 and over who are not engaged in any job, though they wanted to get a job during the week just before the survey, and had been seeking a job during the previous four

According to both the 1992/93 and 1997/98 living standards surveys, the employment status for young, rural males was affected more seriously than that for older, urban females. Underemployment among rural women reduced 2 percent from 1992/93 to 1997/98.

The data from VLSSs (SPC and GSO 1994; GSO 1999a) have revealed that correlation between unemployment rate and level of education is not very strong.

In 1992/93, the higher educated (at university and higher-education levels) were observed to be less likely to be unemployed. In 1997/98, the rate for highly-educated people was almost the same as for those with only a primary diploma.

What should be of concern is that those young people who have left school are the most vulnerable group and usually have the highest rate of unemployment in comparison to any other groups. This group of people suffers an extremely high rate of unemployment in urban areas where it is difficult to find jobs for those who are not skilled or experienced. In 1992/93, the group aged 10-14 had an unemployment rate of 11.9 percent, for those aged 15-19 the rate was 19.9 percent, and for the group aged 20-24 years, the rate was 12.1 percent. The figures of 1997/98 were 8.9 percent, 18.3 percent, and 8.1 percent, respectively (Bales 2000). These extremely high rates of unemployment for young people is evidence that policy makers should pay more attention to vocational training for young people in urban areas, otherwise this may lead to a very serious employment situation in the long term and may create social problems (see Table 5.18).

The Living Standards Surveys data do not support the hypothesis that there is a high rate of unemployment for educated people (college or higher). The rate for this group was lower than the rate of the total labour force (2.2 percent vs. 2.2 per-

weeks. The unemployed also include those who wanted to get a job, but had not been seeking a job during the previous four weeks because they did not know where to find a job, or because they were seeking a job for a long time, but found no job;

- Underemployed people are defined as those whose total working time is less than 40 hours per week, or less than the total working hours stipulated in the relevant regulations and want more working hours;
- The unemployment rate is a percentage of total unemployed people in comparison with the total economically-active population;
- The underemployment rate is a percentage of the total underemployed people to the total economically-active population;

Meanwhile, the GSO has provided that: Unemployed people include those who have not worked in the past seven days and meet one of the following conditions:

- Looking for job in the last seven days,
- Not looking for job in the last seven days because they do not know how to find

Table 5.16. Unemployment and Underemployment Rate

	1989	1996	1997	1998	1999
Unemployment rate for urban areas	13.2	5.88	6.01	6.85	7.4
Unemployment rate of Hanoi	-	7.71	8.56	9.09	10.31
Unemployment rate of Ho Chi Minh City	-	6.68	6.13	6.76	7.04
Underemployment rates for rural areas	-	27.89	26.86	28.87	26.51

Source: Statistical Yearbook 1999, GSO

cent for 1997/98 and 2.25 percent vs. 3.8 percent for 1992/93). However, the group of people with upper-secondary diplomas had the highest rates of unemployment for both 1992 and 1998. In 1992/93, the group of upper-secondary diploma people had an unemployment rate of 6.2 percent (total unemployment rate 3.5 percent), and 3.6 percent for 1997/98 (total unemployment rate 2.2 percent). This is consistent with the highest rate of unemployment for the group aged 15-19 years, as shown in Figure 5.6. The conclusion is that vocational and job training are needed for this category of population.

Table 5.17. Unemployment by Sex, Rural/Urban (Percentage)

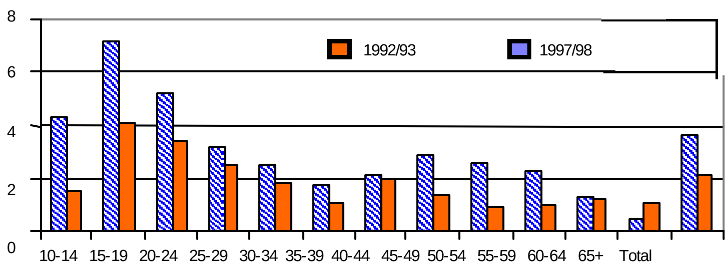
	Total		Urban		Rural	
	Male	Female	Male	Female	Male	Female
1992-93	3.49	3.37	7.93	5.98	2.35	2.68
1997-98	1.85	1.3	5.21	3.27	0.96	0.69

Source: VLSS 1997/98, GSO

The unemployment rates in urban areas in the last four years rose from 5.8 percent in 1996, to 7.4 percent in 1999. Unemployment has become a big issue and more effort should be devoted to this issue. The regional economic crisis is just one reason for the rising unemployment rate. Economic weakness and the growing number of young people reaching working age also contribute to the phenomenon.

The rate of young people entering the work force has increased in recent years. In 1979, the number of these people was 1.2 million, in 1989 it was 1.36 million,

Figure 5.6. Unemployment Rates by Age in 1992/93 and 1997/98



Source: Bales 2000

Table 5.18. Unemployment Rates by Education Level (Country-wide percent-

Level of education	1992/93	1997/98
Less than primary	3.36	2.29
Primary	3.47	2.50
Lower secondary	3.60	1.48
Lower technical	4.89	1.85
Upper secondary	6.23	3.58
Upper technical	2.98	2.21
College or higher	2.25	2.20
Total	3.67	2.22

Source: Bales 2000

and in 1999 it was 1.76 million. Putting it differently, the annual growth rate for these people in the decade between 1979 and 1989 was 1.3 percent; between 1989 and 1999 the rate was more than double that figure, at 2.9 percent. This rate means that annually about one million young people enter the workforce, or at a rate of 2.5 percent of the total labour force. This rate will not go down for another ten years because the population growth rate only started to decline in the middle 1990s. The number of new jobs created each year also has increased; for example, the number of new jobs created in 1991 was 690,000, and in 1997 it was 1.2 million, but the number of unemployed people also increased from 770,000 to 950,000 between 1990 and 1997. The pressure from the number of people entering the labour force is very strong, and it can be said that unemployment in the 1990s has been a stubborn issue for Vietnam.

5.3.3. Labour Migration

5.3.3.1. International Labour Migration

Inward migration

Since economic reforms started in the late 1980s, and with the introduction of the Foreign Investment Law in Vietnam, the number of foreigners coming to Vietnam is

Figure 5.7. Number of Newly-employed and Unemployed

Source: GSO data, calculated by the authors

believed to have increased. However, immigration records in Vietnam are not available in any statistical publication. Although the number of foreigners has started to rise, their numbers are still very small. The majority of foreigners living in Vietnam are working for international organisations.

The limited number of foreign worker/experts working in Vietnam partly is due to the strict rules on inviting/hiring foreign workers. For example, to hire a foreign worker, the firm has to get permission from the authorities. Conditions for this permission are rather strict. The firm has to convince the authorities of their need, the firm must have a training programme for the Vietnamese workers replaced by the foreigner (s), and the firm is allowed to hire only highly skilled (qualified) workers.

The strongest inward migration to Vietnam in the last few years has been overseas Vietnamese who migrated abroad illegally in the past. Under the repatriation programme supported by the United Nations, illegal Vietnamese migrants have been sent back, and this flow has been significant. Most of these migrants came back from Asian countries and are jobless.

Outward migration

During the 1980s, labour migration to the former Soviet Union and Eastern European countries was heavy, but this has almost stopped since the early 1990s due to the collapse of the Soviet Union (Table 5.19). According to the records kept by MOLISA, the number of Vietnamese employed in the former Soviet Union and Eastern European countries was about 200,000.

The number of international labour migrants in the early 1990s was very modest, and most of the labour migrated to the Lao PDR and Cambodia. The main work for the migrants to the Lao PDR during this period was construction in both private and state companies. The number of Vietnamese migrants to Cambodia is believed to be a larger number, but the official data on annual out-flow of Vietnamese to Cambodia are not available. However, Chapter Two of this book, which was pro-

Diagram 5.1. Procedure for Getting a Work Permission Document
(according to Decree 58/CP dated 3rd October 1996 by government)

Working permission procedures	Request made by firms to Authority →	Getting approval by Authority (10 days maximum) →	Signing contract between employer and employee →	Sending request to MOLISA for permission document →	Getting permission document (45 days maximum)
Conditions of the foreign worker	18 years old or over Certificates on health; qualifications; legal status Duration of contract: no longer than 3 years				
Conditions for the firm	Convincing authorities about their needs Having a plan to train Vietnamese workers replaced by foreign workers				
Authorities to approve request	State corporation: Director of Executive Board State firm: Head of institution signs approval Non-state firm (including foreign ones): Chairman of province/city				

Table 5.19. Number of People Repatriated from 1990 - 1997

Country	1991	1992	1993	1994	1995	1996	1997
Hong Kong	7753	12612	12752	5938	2643	15103	5846
Thailand	2691	2719	3499	2322	611	4659	6
Indonesia	1305	1002	1434	2009	2121	4506	6
Malaysia	355	756	1425	1268	709	4296	0
Philippines	71	130	357	761	143	955	0
Japan	0	0	213	550	359	171	127
Singapore	1	0	1	0	0	99	7
Others	20	12	3	60	0	0	0
Total	12196	17231	19684	12908	6586	29789	5992

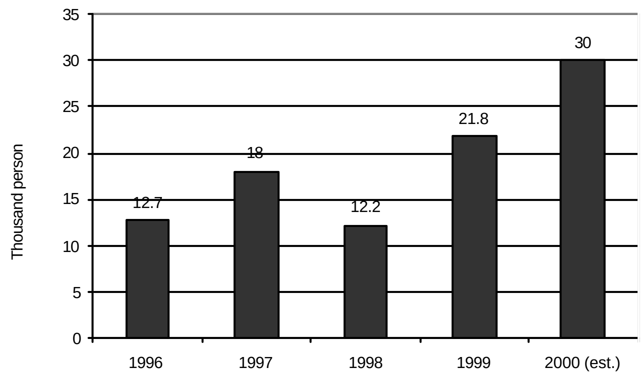
Source: Statistical Yearbook 1996 and 1997

duced by the Cambodia Development Resource Institute, reveals that a lack of skilled workers in Cambodia offers opportunities to Vietnamese construction foremen, wood processors, machine repairers, etc.

In recent years, however, labour export has again grown in scale, as the number of exported labourers has been increasing, and destination countries have been diversified (Figure 5.8). According to MOLISA, in 1992, the number of destination countries for Vietnamese employees was 12, and in 1999 this increased to 36. The total number of exported employees in 2000 was between 0.5 percent and 0.6 percent of total employment in the country, rising from 12,000 in 1995 to about 30,000 in 2000. Although this figure is small, it is very significant if compared to the rate of unemployment, which was 1.6 percent in 1998, as found in VLSS 1997/98.

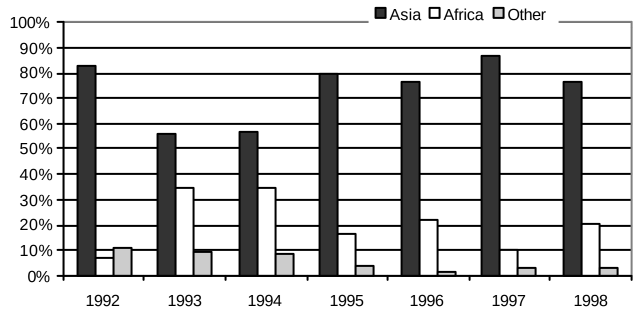
Vietnamese migration in the last few years to Asian countries has risen dramatically, and these countries have become the biggest market for Vietnamese workers. The next largest market for Vietnamese migrants, are the African and Middle Eastern countries, of which Liberia and Kuwait take the majority. Among Asian countries,

Figure 5.8. Number of Exported Workers 1996-2000



Source: MOLISA 2000

Figure 5.9. Distribution of Vietnamese Migrants by Continent (seaman workers excluded)



Source: MOLISA 2000

South Korea is the largest market for Vietnamese migration, second is the Lao PDR, and the third is Japan (Figure 5.9).

Although Vietnam in the last few years has exported highly-educated workers, such as experts in education or agriculture to some African countries, the number of these workers is still very small. Most of the Vietnamese overseas workers are unskilled, and work in simple jobs such as construction, or in the garment industry.

Changes in policy on export of labour

Aware of the importance of labour export (migration), the Vietnamese government has introduced changes in its policies on this subject. These have occurred in the last few years to stimulate the labour export business.

Up to the present, the government has issued three Decrees governing labour export. These were Decree 07/CP (1991), Decree 152/CP (1995), and Decree 125/CP (1999). Before 1998, the labour export business was only carried out by a number of state-owned enterprises. However, the requirements to participate in this business were not so easy. For example, before 1998, valid enterprises were only those that had legal status, and a certain minimum capital (1,000 million dong in 1995). They also had to fulfil a number of conditions, and obtain special licenses (see Diagram 2).

1999 saw a big change in the regulations on this. Before 1999, only state enterprises could participate in the business of labour export. Now by regulation, private firms can participate, and individuals can go to work for an overseas company if they have a contract. Also, now a non-licensed firm can send workers abroad if the firm has business in the foreign country. The shipment license (the license for each business transaction) has also been phased out. As a result of the new regulations, there are three new private labour-exporting enterprises, making a total of 36.

There are still restricting conditions such as minimum registered capital (1,000 million dong, equal to US$70,000), and 50 percent of the staff must have university qualifications, and so on. Nevertheless, the 1999 regulation is a big step forward for the business of labour export.

Internal labour migration

Internal migration in Vietnam is characterised by two flows: southward, and rural-to-urban migration. The common wisdom suggests that among the reasons explaining southward migration are the better economic conditions in the south, in terms of both natural resources and economic development.

Also, the data have shown a strong rural to urban flow of migrants. Table 5.20 shows the migration of 1997/98. In this table, about one-half of urban residents were born in the countryside, while more than 90 percent of the rural population had origins in the countryside. This means that for every 100 urban persons, 52 persons were born in the countryside, and for every 100 rural persons, only nine people were not born there. The rate of migration from region to region is very different: the central highlands were found to have the highest rate of immigrants. In other regions, the rate of those who were born and now are living in the region is between 65 percent and 85 percent. The central highland region has a ratio of 39.6 percent, and the migrants were mostly from the south central coast region where economic development is the lowest compared to other regions.

In fact, it is very interesting to find out that economic reasons are not the strongest ones leading to either rural-to-rural or rural-to-urban migration. The main reasons are related to war, natural disasters, and family relations. Data from the Living Standards Survey for 1997/98 show that for the latest migration of urban people, economic reasons account for only 22 percent, while family reasons account for 59 percent. War accounts for 10.6 percent, and "others" for 8.5 percent. The figures for rural migrants were 16.6 percent, 46.3 percent, 28.9 percent, and 8.2 percent, respectively. This trend is consistent with the correlation between the migration rate and the expenditure quintile. The higher ratios of migrants fall into the groups with higher rates of expenditure. Migration data from the VLSS 1997/98 (GSO 1999a) do

Table 5.20. Matrix of Birthplace and Destination of Migrants by Region in 1998 – Rural/Urban

		Residence		
		Urban	Rural	Country
Birth place	Urban	48.15	7.92	21.89
	Rural	49.00	91.51	76.75
	Abroad	2.85	0.57	1.40
	Total	100.00	100.00	100.00
Migration rate		51.90	8.50	-

Source: VLSS 1997/98, GSO

Diagram 2. Main Changes in Regulations Concerning the Export of Labour

Before 1999	Business requirements of a labour	After 1999
Yes	Minimum capital	Yes
Yes	State ownership	Yes
No	Private ownership	Yes
No	Individuals	Yes
Yes	Specialised business license	Yes
Yes	Shipment license	No
No	Non-specialised business license	Yes
Before 1999	**Forms of labour export**	**After 1999**
Illegal	Workers find contract on their own	Legal
	Work arranged on contract by a com-	
Legal	Arranged though a labour export service	Legal

not show economic pressure as a significant reason for migration; to determine that, one has to look at the groups of people of working age.

Looking at the data for the migrant population aged 10 and over (not working in their birthplace), the economic pressure is very clear. Those who are poorer are more likely to migrate, though the poorest group does not have the highest rate of migration. This could be explained by their limited resources to pay for transportation in order to move (Table 5.20 and Table 5.21). It is clear that economic migration is a problem of the poor, and in particular a problem of the rural poor.

The VLSS 1997/98 (GSO 1999a) data show that marital reasons are the main reasons for migration for both men and women, but the ratio of women migrating for marital reasons is much higher than that for men (twice as high). The ratio of men and women migrating for economic reasons is the same. For men the war was a very important reason for migrating (Table 5.22).

5.3.3.2. Links Between the Labour Market, Poverty Reduction and Growth

The Vietnam economy has recently seen great success in increasing its economic growth rate. The economic growth has provided new employment opportunities for its workers. Workers can now move from traditional agriculture to the industry and service sectors, where they can earn more. In fact, there has been an obvious change

Table 5.21. Share of Population Aged 10 and Over Going Out to Work - by Expenditure Quintile, Sex, And Region (percent)

		Expenditure Quintile				
	Total	1	2	3	4	5
Total	3.23	3.46	3.88	3.25	3.15	2.27
Male	4.67	4.83	5.5	5.64	4.24	3.32
Female	1.9	2.28	2.23	1.51	2.12	1.3
Urban	1.96	4.51	2.35	1.71	1.65	1.97
Rural	3.62	3.41	3.99	3.78	3.67	2.78

Source: VLSS 1997/98, GSO

Table 5.22. Reasons for Migration (Percentage)

	Reason				Total
	Economic	Disaster, war	Family	Other	
Male	18.43	35.68	37.18	8.71	100
Female	18.55	5.26	68.45	7.75	100

Source: VLSS 1997/98, GSO

in the structure of the economy: the share of agriculture in GDP fell by more than 6 percent; and the share of industry expanded by about 6 percent (from 27 percent to 33 percent). And this has been associated with a change in the structure of employment in the country's economy: the share of agriculture in the total employment of the productive sector has declined by 2 percent (from 76.5 percent to 74.1 percent); the share of industrial employment has declined (from 13.5 percent to 13.1 percent); and the service sector employment has gone up – from 10 percent to 12.8 percent (World Bank 1999).

Table 5.23. Decline in Incidence of Poverty In Vietnam (%)

		1993	1998
Food poverty		**24.9**	**15**
	urban areas	7.9	2.3
	Rural areas	29.1	18.3
General poverty		**58.1**	**37.4**
	urban areas	25.1	9.1
	Rural areas	66.4	44.9

Source: VLSS 1992/93 and 1997/98

Together with the gain in economic growth, the fact that poverty has sharply declined in Vietnam during the last decade has been confirmed by a number of studies (World Bank 2000a, GSO 1999a), both in quantitative and qualitative terms. According to the findings of these studies, poverty reduction is qualitatively represented by rising *per capita* expenditures and improving social indicators for poor households. The proportion of people with *per capita* expenditure under the overall poverty line has dropped dramatically from 58 percent in 1993 to 37 percent in 1998. The number of people below a food poverty line has also declined from 25 percent to 15 percent, revealing improvement in the living standards of the poorest segment of the population (Word Bank 2000a).[3] It is clear from the figures, that

3 The poverty rate figures have been calculated using an internationally-accepted methodology for defining poverty. They measure the number of people below the poverty line (the headcount index), which in turn has been calculated on the basis of *per capita* household expenditures. The definitions of poverty lines in Vietnam used in this report are those agreed upon by the World Bank and Vietnam's GSO and are as follows: the *Food poverty line* is determined by the requirement of 2,100 Kcal/person/day. People having a level of expenditure lower than the costs needed to obtain this quantity of calories are considered as *food poor. The general poverty line* is defined by adding some costs of non-food commodities to the *food*

though poverty incidence is still relatively high in the country, these declines in both total and food poverty during the short period of time are quite impressive. According to the sources, in recent years, almost no other country has recorded such a dramatic reduction in poverty within such a short time.

Table 5.23 shows that the percentages of food poverty and total poverty rates sharply plummeted from 1993 to 1998, in both rural and urban areas. But the size of the decline is larger in rural than in urban areas: food poverty has decreased by 5.6 percent (from 7.9 percent to 2.3 percent) in urban areas and by 10.8 percent (from 29.1 percent to 18.3 percent) in rural areas. Likewise, the general poverty rate has declined 16.1 percent (from 25.1 percent to 9.1 percent) in urban areas and by 21.5 percent (from 66.4 percent to 44.9 percent) in rural areas. This, for the most part, is attributed to high economic growth rates and social stability during this period.

Table 5.24 shows a rapid reduction of poverty measured in depth, though there is still a big gap between the regions (poverty is much worse in the northern and central uplands of the country).

Table 5.24. Reduction in Depth of Poverty (as measured by the Poverty h-

Regions	Poverty Gap index	
	1992-93	1997-98
Northern Uplands	26.8	16.8
Red River Delta	18.8	5.7
North Central	24.7	11.8
Central Coast	16.8	10.6
Central Highlands	26.3	19.1
Southeast	9.2	1.3
Mekong Delta	13.3	8.1
Total	18.5	9.5

Source: estimates based on VLSSs 1992/93 and 1997/98, World Bank 2000

Clearly, it is difficult to attribute all these achievements only to the changes made in the country's labour market. There are a large number of economic policy initiatives targeted at poverty reduction, rather than labour-market policy alone. Besides the employment promotion programme (the only "purely labour-market policy" ever conducted by the government in rural areas), there have been a large number of initiatives implemented for poverty reduction. These initiatives include the government's land allocation programme, provision of credit to the poor, building rural infrastructure, re-greening of barren hills, and the programme for resettlement of nomadic ethnic people. However, poverty remains a largely rural phenomenon in Vietnam, with 90 percent of the poor living in rural areas, and with 45 percent of the rural population living below the poverty line. One of the main reasons for this poverty is a shortage of arable land and an absence of other substitute pro-

Table 5.25. GDP Growth and Inflation Rates (percentage)

	1995-97	1998	1999
GDP	9.0	5.8	4.8
Agriculture.	4.7	3.6	5.5
Industry (manufacturing)	13.3	10.2	7.5
Construction	13.4	-0.5	2.4
Trade and service	9.2	4.4	2.2

Source: Statistical Yearbook 1999, GSO

duction activities. It is clear that a change in wage employment and the degree of underemployment in rural areas could be credible indicators representing the change in livelihoods of people explicitly impacted by the evolution of the supply and demand of labour in the market.

Although in Vietnam wage employment is the main form of employment for only about 20 percent of all workers, it can be considered as a relatively robust indicator of labour-market change, especially of change in rural areas. According to the World Bank estimates based on VLSS 1992/93 and 1997/98 (World Bank 2000a), wage employment has grown by 3.5 percent *per annum* for all Vietnamese, and by 3.3 percent for rural areas during the period. This can be seen as an encouraging signal, if we take into account that wage employment as such was almost non-existent during the previous decade in the Vietnamese countryside.

Also, it is largely recognised that there has been a rapid growth in employment in non-farm activities. These include retailing, food processing, fisheries, or other activities organised and managed by the households living in the village. Employment in these activities has grown by more than 5 percent annually. The growth rate has been relatively higher in rural areas (7 percent) than in urban ones (4 percent). The activities have occupied redundant labour, and in this way have helped to reduce underemployment in the rural areas. Estimates by the World Bank (2000a) based on VLSS 1992/93 and 1997/98 have revealed that both severe unemployment and underemployment have decreased somewhat during the last five years in both rural and urban areas. In rural areas, where underemployment is a more serious problem, the proportion of the workforce working less than 40 hours per week has declined from 71 to 61 percent.[4]

There is a very obvious link between economic growth, poverty reduction and the dynamics of the labour market in the country. Although it is not easy to measure explicitly how strong this link is at this moment, the link can be clearly observed. Where the economy performs well, with a higher growth rate, and where the labour market functions more properly, the number of poor people as well as poor households are correspondingly reduced.

4 See: the same report, p. 49.

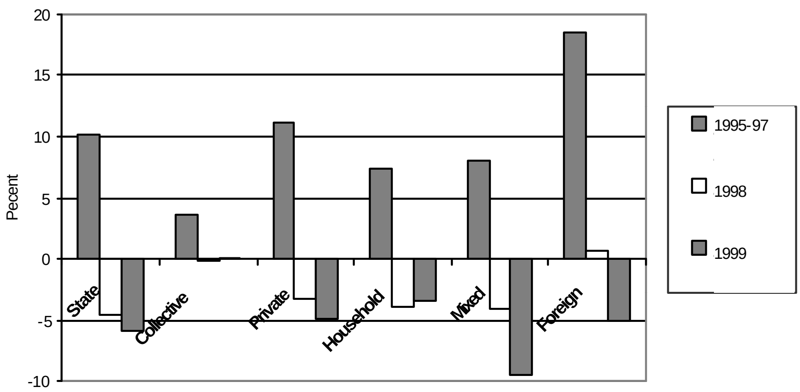
5.4. The Regional Financial Crisis and its Impact on the Labour Market in Vietnam

The impact of the regional financial crisis on the economies within the region has been examined to a relatively-large extent by DAN research teams in 1999 (DAN 1999). The main conclusions made by these researchers were that even though the impact of the Asian crisis began to be felt a bit later by the SEATEs (in 1998), each was rather more effected by its own domestic problems. For example, in Vietnam in particular, transition to a market economy was difficult primarily because of inefficient state-owned enterprises and cumbersome domestic rules and regulations that impeded the development of the private sector. Regarding the impact on the country's labour market, the paper has pointed out that a slowing down of growth, stagnation of production and services, and smuggling caused by the crisis inevitably had negative implications for the country, among which unemployment was the most serious problem. The following section will examine those remarks in more detail.

5.4.1. Impact on the Country's Economic Performance

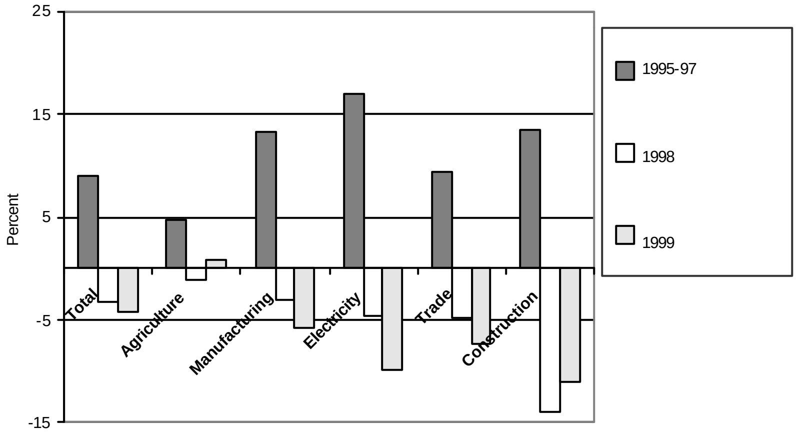
Although the crisis happened in the middle of 1997, its real impact could not be felt in Vietnam until late 1998 and 1999, when economic growth reduced sharply, and the economy stagnated. Different sources of information have shown different evaluations of the seriousness of the crisis: international organisations are more pessimistic, while the Vietnam government seems to be more optimistic. They all, however, do agree that the crisis has affected the economy through several channels. These channels are; (1) a fall in foreign investment, and slowing down in domestic

Figure 5.10. Average GDP Growth Rate for 1995-97, 1998 and 1999, respectively, by type of ownership



Source: Calculated from data from the Statistical Yearbook 1999, GSO

Figure 5.11. Average GDP Growth Rates for 1995-97, 1998 and 1999, Respectively by Type of Industry



Source: Statistical Yearbook 1999, GSO

investment; and (2) a decline in foreign trade, and as a result, the growth rate of the economy slowed, and the level of unemployment and other social problems increased.

5.4.1.1. Decline in Economic Growth

The economy achieved a very impressive performance in the early 1990s (prior to the crisis), then in 1997 there was a slowing-down, and in 1998 and 1999 economic growth was reduced significantly. Slowing down of the economy in 1998 and 1999 can not be attributed only to the impact of the crisis in the region. The weaknesses of the economy (weak private sector, poor performance of state-owned enterprises, inefficient banking system, and so on) also significantly contributed. Growth rates of the economy in 1998 and 1999 reduced to one-half of the rates gained in the previous years.

International institutions in Vietnam, such as the World Bank and the International Monetary Fund (IMF), indicated much lower rates than the figures in Table 5.25. For example, the World Bank showed GDP rates for 1998 and 1999 to be 4.0 percent for the two years; and that GDP growth of industry was 7.0 percent in 1998 and 5.7 percent in 1999 (World Bank 1999). The IMF indicated GDP growth rates of 3.5 percent in 1998, and 4.2 percent in 1999 (IMF 2000).

There is no doubt that the crisis has impacted all sectors, but the seriousness of its impact was different from one sector to another. In order to see how the crisis impacted the economy, some calculations have been made. The post-crisis GDP growth rate of 1998 or (1999) was subtracted from the average growth rate for the

years 1995 to 1997 (pre-crisis years). The average growth rates from 1995 to 1997 are considered as the base rate, which refers to the would-have-been GDP growth rate of the economy, had there been no crisis. The GDP growth rate of 1997 is taken to calculate the would-have-been rate, though the crisis occurred in 1997. This was done because the impact of the crisis on the Vietnam economy was still modest at that time, and the economy was still growing. Positive effective impact indicators would show no impact of the crisis, negative ones would show the impact, and the smaller (negative in absolute terms) would show stronger impacts.

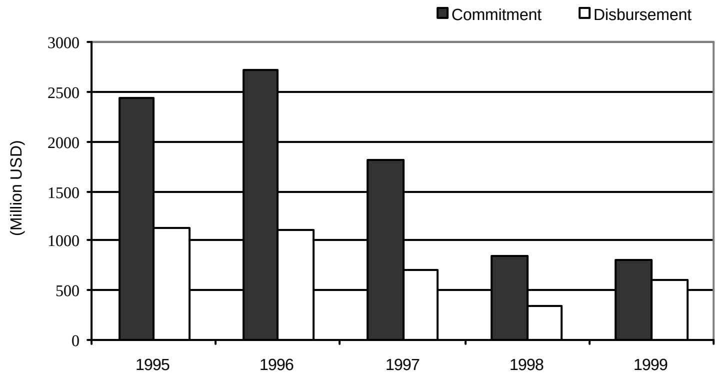
As shown in Figure 5.10, the state sector was most affected with a loss of 4 percent growth in 1998 and 5.7 percent in 1999. The other national sectors were more stable. The foreign sector was more affected in 1999 than in 1998.

Figure 5.11 shows a big loss in the construction industry due to the crisis (14 percent in 1998 and 11 percent in 1999). The construction industry, in fact, was very sensitive to the general economic trend. As it depends heavily on foreign investment, falling foreign investment had negative consequences for the industry. The electricity and water supply industry was also severely impacted, with negative growth of 4.7 percent and 9.9 percent for 1998 and 1999, respectively. The manufacturing sector lost 3.1 and 5.8 percent, respectively, in those two years. Agriculture was the most stable in 1998, with the smallest loss in its growth rate. In 1999, it even grew slightly.

5.4.1.2. Fall in Foreign Investment

Foreign investment in Vietnam has increased very fast during the last decade. Foreign investment began in the early 1990s (Figure 5.12). In 1995, its share in industry GDP was 25 percent, 29 percent in 1997, and 32 percent in 1998. Therefore, the

Figure 5.12. FDI Commitment and Disbursement



Source: Statistical Yearbook, 1999

Table 5.26. Growth Rates of Vietnam's Imports and Exports 1996-199

	1996	1997	1998	1999
Total exports	41.2	24.6	2.4	23.2
Exports, excluding oil	43.5	29.0	5.3	16.2
Total imports	38.9	-0.4	-0.6	0.8

Source: Statistical Yearbook 1999, GSO

rising or falling of foreign investment will significantly affect the growth of the economy. Since the onset of the crisis, foreign investment has declined at a striking rate and has still not recovered.

The slowing down of the economy also led to a reduction of government revenue (from 23 percent of GDP in 1996 to less than 18 percent in 1999). With the combination of the fall in foreign investment and the reduction of government's investment, the level of total investment as a share of GDP fell from 29 percent in 1997, to 19 percent in 1999 – the lowest since 1993. The rate of gross capital formation declined from 17 percent in 1995 to 12.6 percent in 1998, and to 3 percent in 1999 (Statistical Yearbook 2000).

5.4.1.3. A Silent Foreign Trade

Asian countries are the main markets for both the imports and exports of Vietnam. Therefore, a slowdown in these economies has had a negative impact on Vietnam's foreign trade. Moreover, stronger devaluation of the domestic currencies of Asian countries has made Vietnam's commodities less competitive in world markets. Exports declined from 40 percent in 1996, to 2 percent in 1998. Growth rates of imports in the past few years also reduced to negative figures. Since 1999, exports have regained their momentum and started to grow (Table 5. 26).

5.4.2. The Impact on Employment and Income

5.4.2.1. A Rise in Unemployment

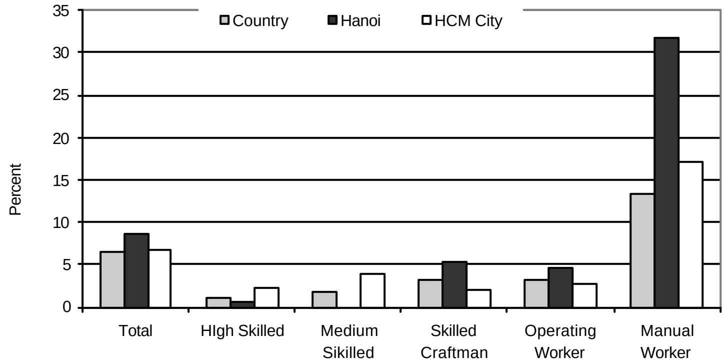
There is no doubt that the economic slowdown after the crisis has had an impact on the labour market. This can be clearly seen through an increase in unemployment, underemployment, and a reduction of wages and income. Although the 1990s saw some improvement in employment, in 1998 and 1999 the rate of unemployment

Table 5.27. Employment Growth Rate by Sector and by Industry

	State sector				Non-state sector			
	1996	1997	1998 (est.)	1999 (est.)	1996	1997	1998 (est.)	1999 (est.)
Total	2.8	4.1	3.6	-0.4	3.5	3.3	2.3	2.0
Ag. Forestry, & Fisheries	-12.1	3.6	-5.4	-4.5	2.9	2.7	2.5	2.1
Industry	2.9	5.9	5.6	-0.6	0.4	-1.7	-1.7	0.8
Service	6.0	-3.6	-0.5	-2.3	12.6	20.4	-	-
Non-productive*	4.4	6.2	4.6	0.6	-	-	-	-

Note: * Statistical Yearbook 1999, GSO. Source: IMF 2000

Figure 5.13. Unemployment Rate by Skill Level for the Country as a Whole and Two Big Cities in 1999



Source: MOLISA 2000

was on the rise in urban areas. As shown in Table 5.16 above, the unemployment rate in urban areas has risen from 6.0 percent in 1997 to 7.4 percent in 1999, and the underemployment rate in rural areas also rose from 25.5 percent in 1997 to 28.2 percent in 1998.

Regarding employment in particular, the crisis hit the non-state sector much harder than the state sector, and the impact on the state sector came later than the non-state sector. We did not see the reduction of total employment in the state sector until 1999, but it is clear that the non-state sector was immediately impacted by the crisis.[5] For example, the growth rate of industrial employment (including construction) in the state sector started reducing in 1999 only (Table 5.27), while employment in industry in general declined since 1997.

The picture is quite different for the service sector. While employment in the state service sector showed negative growth from 1997, and has kept declining up to the present, the employment rate in the non-state service sector since 1997 has increased at significantly higher rates. From this point of view, it seems that the non-state sector has responded to the crisis much better than the state sector.

As expected, women and the young were most subject to the impact of the crisis. Before the crisis, the rate of male unemployment was often higher than that of female employment, but by 1999, the rate of female unemployment caught up to

5 A survey on 250 foreign enterprises carried out by MOLISA in 1999, also reflects the view that foreign enterprises did not appear to be impacted severely until 1998. According to that survey, the sector grew by 19 percent at current prices and 8 percent at constant prices. The number of employees increased by 6 percent and income rose by 10 percent at current prices. However, the data show a down-

the rate for males. As the rate of unemployment rose, the share of women in total unemployment also rose. In 1996 the share of women unemployed was 46 percent, in 1999 the rate was 52 percent for women aged 15 and over.

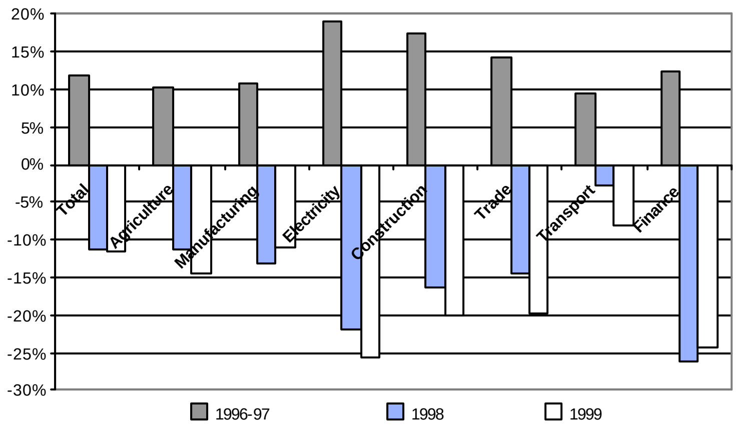
The data from MOLISA (2000) reveal a striking rise in the share of young unemployed: from 36 percent in 1998 to 52 percent in 1999 for people aged 15-24. At the same time, there was a huge reduction in the share of the unemployed in the group aged 25-43, from 32.3 percent in 1998 to 24 percent in 1999. The accuracy of these figures should be checked, but in any case they mean that young people were the most affected by the crisis.

Annually, MOLISA takes a survey on employment in which data on unemployment are considered important. Unfortunately, the format for publication of the data in these surveys is different from year to year, which does not allow a proper comparison of unemployment rates.

The data on unemployment rates by job classification in the 1999 survey show a very high rate of unemployment for unskilled workers, and this rate is particularly high in big cities. For example, the rate in 1999 in Hanoi was 32 percent, and 17 percent in Ho Chi Minh City (Figure 5.13). By education classification, the unskilled worker's unemployment rate in 1997 was just 6.1 percent. Although it is difficult to compare these two rates, an increase in unemployment rates for unskilled workers from 1997 to 1999 is suggested.

5.4.2.2. A Decline in Income

Figure 5.14. Average Growth Rates of Real Wages in 1996-97, and 1998 and 1999 by Industry



Source: Calculated from Statistical Yearbook 1999, GSO

It is difficult to measure the impact of the crisis on the income and livelihood of the people because data on incomes are usually unreliable. There is no doubt that the crisis has had a negative impact on income, but there is little official data available, and those that are available are for state employees only.

It is very easy to observe the impact of the crisis on the wages of employees in the state sector (in both nominal and real terms). The reduction in the wages of state employees was seen in all industries, and the severity of the reduction was quite substantive. On aggregate, the real wage in 1997 increased 14 percent, while in 1998 it increased only 1.8 percent. In 1999, it declined by -1.0 percent. Once again, to see the severity of the impact of the crisis, we use the effective impact indicator of wage reduction. The average of the real wage increases of 1996 and 1997 are used as the base, and the effective impact indicators of wage reduction in 1998 and 1999 are differentials of the average real wage rate increment in 1998 or 1999, compared to the average increment rate of 1996 and 1997.

As shown in Figure 5.14, the most severely impacted were the employees in the construction and financial industries. They faced a real wage reduction of more than 25 percent. This has led us to conclude that workers in these industries encountered a reduction as a result of the crisis. Nevertheless, it must be noted that these indicators just show the wage-increment reduction. They are not good enough to evaluate changes in the livelihoods of people, and more than that, cannot be indicators of poverty and/or malnutrition. For example, even though the wage-increment indicator of the electricity industry was negative (the real wage declined 7 percent in 1999), the wage rate for this industry was still among the highest for the state industries.

In 1999 the wage in the electricity sector was 1.2 million dong per month compared to the average state sector wage of 0.7 million dong per month. Therefore, the problem created by the crisis is not an issue of wage reduction in general, but a problem of wage reduction in specific industries where the wage rate was already low, e.g. in agriculture, and fisheries. In the latter industries wage rates were about one-third of those in the electricity or communications industries. Moreover, though the wage reduction has to some extent created an issue, the real problem facing the country (or at least for the state sector) is unemployment.

In short, the regional economic crisis has created problems for the Vietnamese economy, both in terms of economic and civil development. This is particularly true from the point of view of employment. Those most affected by the crisis are the unskilled, the young, and female labourers. Although there was some impact seen in the reduction of nominal and real wages, this was not a very big problem.

In the state sector, the biggest concern today is the fact that the crisis severely

hit laid-off workers who were not provided with unemployment benefits, due to the lack of an unemployment insurance system in the country.

5.5 Change in the Labour-market Policy Framework and its Impact on Promoting Growth, Reducing Poverty and Overcoming the Crisis

5.5.1. Changes in Political Policy

A major precondition for a labour market to function well is "freedom of contract." Both the supplier and the consumer of labour, as the main actors in the market, should have complete freedom to decide whether or not to enter into contract transactions. From the demand side, the employer should enjoy the freedom of recruiting and selecting the most suitable workers for the job. On the supply side, workers should enjoy the freedom to apply for and take any job they wish.

In Vietnam before *Doimoi*, however, neither employer nor employee enjoyed the freedom to work where they wanted. All Vietnamese were required by law to register as either state employees or as non-state employees, and as rural or urban residents. To prevent workers from migrating freely from one workplace to another, an individual's food ration coupons were issued only at the place where he or she was formally registered.

A social welfare and housing policy also contributed to preventing workers from moving. In Vietnam, for a very long time, state employees were provided with housing for almost no charge. Health care and education benefits were also provided for employees and their family members. The state enterprises (SOEs) were obligated to accept the workers that were assigned to them, in accordance with the plan imposed from higher administrative levels.

Since Vietnam has embarked on economic reforms, there have been significant changes in the thinking of the Communist Party and the state regarding policies on employment and labour markets. Before the introduction of economic *Doimoi*, the Vietnamese state leadership asserted that in a socialist country like Vietnam, labour was not a commodity. This statement was often translated into the strongly-held belief that labour should not be sold or bought in the marketplace. Such precepts justified the state's adoption of measures to maintain administrative control over labour allocation and employment. Since the introduction of the economic reforms in 1986, the Vietnamese Communist Party and the government have relaxed the regulations on labour management and allowed the market to play its role. This has been done by stipulating in the Resolutions of the 4th Plenum of Section VIII of the Central Committee of the party that: "we must think of expanding the exports of labour to the already-existing labour markets, as well as promoting it into new ones," and "We must renovate our education and training system so that it can meet

with the new needs and the requirements of the labour market."[6] This was the first time the economic term "labour market" formally appeared in the party’s official documents. This implicitly means a formal acknowledgement of the concept by the party leadership. More than that, the documents demonstrate that promoting effective functioning of the market is one of the most critical tasks of the party and of the state.

These changes in political concept have been explicitly presented in a series of documents by the party and immediately translated into practice. In the early 1990s, a number of reforms relating to the labour market were undertaken. The old wage system, in which payment was made based only on seniority, was abolished. The "employment for life" regime was also removed. Workers in the state-owned enterprises were paid in cash. Prior to 1983, a major share of workers’ wages (up to 90 percent of total income) was paid in kind, e.g. consumer goods distributed at preferential prices, food coupons, etc. Moreover, the workers enjoyed almost free-of-charge housing, medical care, education, and other social benefits. Efforts towards improving the wage system by basing it on level of education, skills, work performance and work responsibility, have made it more closely reflect the real contributions of workers. The private sector has also been allowed to make decisions on how much they pay their workers, with no direct interference from state agencies. The process of cutting down on the "subsidies package" to state-owned enterprises, and privatisation have both contributed to the promotion of labour-market initiatives.

5.5.2. Change in Vietnam’s Legal Framework for the Labour Market

As stated above, Vietnam has seen significant changes in the concept of the labour market during the last decade. These changes have been explicitly translated into the country’s legal framework. Among the key legal documents promulgating initiatives of the labour market and regulating its formulation and operation, highest importance must be given to the country's Constitution (amendment in 1992), the Labour Code (1995), and other legal documents such as state's ordinances, decrees and circulars. From 1 January 1995, along with the Labour Code’s promulgation, a number of regulatory documents relating to the labour market have been issued. Together with the ruling party's policy guidelines and orientations, these documents have shaped a legal background for the establishment and operation of the labour market in the country.

6 Resolutions of the Fourth Congress of the Eighth Session of the Central Committee of Vietnamese Communist Party. The National Politics Publishing House, Page 81 (Vietnamese version).

5.5.2.1. The Constitution of Vietnam on the Development of the Labour Market

It is clearly stipulated in the Vietnamese Constitution that: "the state develops a market-based multi-sector commodity economy under a socialism-oriented state management" (Article 15). In regard to labour issues, they are promulgated in Article 5 and Article 57 of the Constitution that: "working is the right and obligation born upon every citizen. The state and society make plans to create more and more jobs for labourers," and, "every citizen has a right to do business in accordance with the law." The Constitution also includes other articles and provisions stipulating the rights and obligations of state agencies and institutions, of Vietnamese citizens and other persons, to ensure formulation and functioning of the newly-developed labour-market relations in the country.

5.5.2.2. The Labour Code and Respective Regulatory Documents on the Labour Market

The Labour Code of the Vietnamese Socialist Republic promulgated in 1994 with 198 Articles, and enforced since 1 January 1995, is the first legal document to shape the country's labour market. Having been inherited and further developed from the labour legislative framework formulated in 1945 (just after the August Revolution), the Labour Code has institutionalised the Vietnamese ruling Party's respective guidelines and initiatives, and has specified the authority of the Vietnamese Constitution regarding labour and employment issues. Since then, the Labour Code has been considered as the most important legal instrument regulating the relationship between employees and employers. Article 2 of the Labour Code has stipulated that: "The Labour Code provisions are applicable to all categories of employees and employers engaged in contractual labour relations, regardless of their belonging to any economic and/or ownership sectors."

As said above, the Labour Code has shaped the legal background for the formulation of the Vietnamese labour market by acknowledging the right to sell and buy labour services. In particular, it is stipulated in Article 16 that: "an employee has the right to work for any employer and in any place, if this is not forbidden by law"; and "an employer has the right to recruit any employee, either through direct negotiations or through employment services centres, and has the right to increase or cut down the number of employees to the level to meet his/her business needs and requirements in accordance with the law." It is clear that the Labour Code has formally recognised the freedom of job seekers to look for job opportunities and of employers to seek the workers they need. These provisions have created a basis for the labour market to be promoted and developed in the country.

The other important point is that the Labour Code reaffirms the new concept of a job. In the past, only those economic activities carried out by employees en-

gaged in state enterprises and/or cooperatives were considered as a job. Now, however, as Article 13 of the Labour Code stipulates: "every activity generating income and/or benefit, and not forbidden by law, is recognised as a job." This provision has helped to remove the long-time bias against people engaged in economic activities in non-state sectors, and in this way, has facilitated enthusiasm on the part of both employees and employers in creating and seeking new job opportunities. This, in turn, has led to a more dynamic labour market.

In addition, provisions of the Labour Code have created a basis for the regulation of many other important labour market-related issues such as vocational training, contractual relations, wages and salaries, labour discipline, labour safety and sanitation, social insurance, trade union organisations, and state governance agencies. These provisions are of great importance as they allow labourers equal opportunities in employment and payment, and protect the interests and rights of both employees and employers. In this way labour relations are harmonised and stabilised so that both employees and employers can bring into full play their initiatives and skills.

5.5.2.3. Other Regulatory Documents on the Labour Market

Apart from the Constitution and the Labour Code, various other labour market-related legal documents have been issued and broadly applied in recent years. Governmental Decree No-198/CP (dated 31 December 1994) on *Instruction and further guidance for implementation of some articles of the Labour Code concerning labour contracts*, is among the most important. The Decree brings in a new and very important stipulation of the mechanism for managing and using the labour force. For example, the document stipulates that in any labour contract, not only interests of employees, but those of employers must be respected. Labour contracts bind the rights and obligations of the two sides in negotiation and voluntary cooperation in respect to mutual benefits.

Governmental Decree 72/CP (dated 31 October 1995) on *Instruction and further guidance for implementation of some articles of the Labour Code on employment*, has clearly specified that employment services centres are semi-autonomous institutions. Also their main functions should include: job promotion, job placement, provision of information on the labour market, organisation and promotion of vocational training, etc. This decree also requires the establishment and implementation of unemployment reserve funds within enterprises and firms. Decree 72/CP plays an important role in the operation of the labour market since this is the first legal document promulgating the idea of employment services centres – a very important institution for the development of the labour market. According to the figures given by MOLISA, there are 139 employment services centres functioning in the country at present.

Social insurance regulations are provided in: Governmental Decree No-12/CP, (dated 26 January 1995); MOLISA's Circular No-06/LD-TB-XH (dated 4 April 1995); and, Circular No-58-TC/HCSN (dated 24 July 1995). These stipulate that social insurance is provided only to employees working in the formal sector, that is, who work in enterprises and/or organisations with a staff of over 10 employees. It also clarifies five forms of payment from the social insurance fund, as well as identifies financial sources of revenue for the fund. Employees working in informal areas are encouraged to take part in voluntary insurance schemes.

Vocational training and entrepreneurship are specified in Governmental Decree No-90/CP (dated 15 December 1995) on *Specification and further guidance of some articles of the Labour Code on vocational training and appren*ticeship, and in MOLISA's Circular No-20/LDTBXH (dated 21 September 1996). The documents shape a legislative and regulatory framework for vocational training activities as one of the most important components of the labour market in Vietnam.

Governmental Decree No-195/CP (dated 31 December 1994) on *Working time and time for entertainment*, and Governmental Decree No-196/CP (dated 31 December 1994) on *Collective negotiations*, and Governmental Decree No-175/CP (dated 31 December 1994) on *Wages and salaries*, are key legal documents specifying and guiding implementation of some Labour Code articles, directly relating to labour-market issues.

Together with the above-stated documents, other laws and legal documents such as Decree 66/CP, the *Company Law*, the *Private Enterprise Law*, and the *Law for Promotion of Domestic Investment* have contributed to the liberalisation of labour-market relations and brought into full play the employment potential of the society. These legal documents have had direct or indirect impact on the formulation and operation of the Vietnamese labour market for the last half of the decade. In regard to labour supply, the changes in the legal framework have vigorously effected the labour market through the provisions directing the country's human resource development and development of human capital. They have created the initial premises and largely facilitated the interactions in labour markets. Furthermore, by promoting a minimum wage concept, the legislation has created a base for defining the price for labour. Also, transactions in the labour market have been formalised through regulations on employment contracts. In regard to labour demand, the newly-created legal framework has provided specific regulations on transition from a centrally-planned economy to one which is market driven. This in turn has helped create new jobs for workers. The changes of the economy towards industrialisation and modernisation have facilitated changes in labour structure between and within economic sectors, and have increased the demand for jobs in the labour market.

In short, during the relatively-short time period from 1994 until now (2000), the Labour Code and other laws and regulations relating to labour and employment, have created and put into practice a rather complete, synchronous and consistent legal framework for the labour market. According to figures given by MOLISA, over 1,000 issue-related documents have been promulgated in the country and these establish a new legal framework for the development of labour-market relations.

5.5.3. The Labour Market's Institutional System

In Vietnam today, labour-market institutions *per se* still do not exist. All the functions relating to the labour market's management and operations are automatically assigned to labour management institutions, in which the Ministry of Labour, War Invalids and Social Affairs (MOLISA) is considered as the sole state governance agency responsible for implementation.

5.5.3.1. The State Labour Market Agencies at the Central Level

Ministry of Labour, War Invalids and Social Affairs (MOLISA)

The state administrative apparatus for labour markets at the central level includes ministries, ministerial-rank agencies and cabinet agencies. Among them, MOLISA is the one with the greatest influence, not only on labour employment, but also on the formulation and operation of the labour market. Article 181, Paragraph 1 of the Labour Code, has stipulated that: "MOLISA functions as the state governance agency on labour issues for all sectors and localities nationwide."

MOLISA was established in 1987 with the merging of the former Ministry of Labour and the Ministry of War Invalids and Social Affairs. The ministry is now responsible for three main aspects: (i) labour issues; (ii) war invalids, dead soldiers and war veterans, and (iii) social affairs. Before the merger, the Ministry of Labour supervised employment issues, implementation of the Labour Code, the labour safety-net, wages and salaries. Governmental Decree No-26/CP later placed responsibility for salary management on the Government Personnel and Organisation Committee, and the Ministry of Labour became responsible for only the management of wages. Since the merger with the Ministry of War Invalids and Social Affairs, MOLISA has been given more functions and responsibilities, including implementation of social policies and activities, such as hunger alleviation and poverty reduction, social assistance, policies for needy children, sponsorship of war victims and persons with disabilities, and social security.

One of the new and important functions of MOLISA is management of vocational training activities. This function is clarified in Governmental Decree No-23/CP (dated 27 March 1998). Through cross-sector collaboration, MOLISA has closely worked with other line ministries to carry out these responsibilities.

A number of changes have recently been made within MOLISA that have directly affected the process of formulation and operation of labour-market policies. These include changes in its mandate and the mandate of its constituting departments, such as the Labour Exports Agency, the Department for Labour and Employment Policies, the Executive Committee for the National Employment Programme (1998-2000), the Population and Labour Centre, and the Centre for Information and Statistics on Labour and Social Affairs. Besides, these other departments within the ministry also contribute to labour and employment programmes case-by-case and in that way, have also provided some impact on the evolution of the labour market.

In particular, the Department for Labour and Employment Policies carries out the function of state governance over implementation of annual small-scale employment projects, e.g. allocation of the state budget to the projects with a total value of less than 200 million dong/project, as well as overseeing the functioning of employment services centres.

According to provisions stipulated in Government Decree No-07/CP, the Labour Exports Agency is in charge of providing services to the labourers and professionals who work abroad. The other function of the agency is to supervise the operations of labour export companies.

The main function of the Centre for Information and Statistics on Labour and Social Affairs is to conduct research studies, labour surveys, and to provide information on the labour market. Labour and employment surveys are conducted on an annual basis (in 1997, 1998, 1999 and 2000).

The National Employment Promotion Centre is in charge of developing policies on labour and employment, and providing instructions on vocational training activities. Meanwhile, the Institute of Labour Science and Social Affairs is given the task of developing a national strategy on labour and social issues.

Departments for Labour and Wages in Other Ministries and Sectors

The management of the labour market is not the task of MOLISA alone, but also of many other ministries, state agencies and local authorities. The Labour Code has identified that localities, ministries and state agencies must cooperate with MOLISA to implement governance over labour issues within those ministries, localities, and agencies.

The Departments for Labour and Wages from other ministries and sectors have shaped a network of labour management agencies at the central level. As consultative bodies, these agencies actively participate in the process of formulating policies, plans, and programmes, and in implementing labour and employment projects within their ministries and sectors.

5.5.3.2. The State Governance Agencies Involved in the Labour Market at the Local Level

The Labour Code provides the Provincial People's Committees with a mandate to carry out the state governance functions over labour issues within their territories. Local labour agencies, e.g. the Provincial Departments of Labour, War Invalids and Social Affairs (DOLISAs) and the divisions of labour at the district level, are set up to help the Provincial People's Committees carry out the tasks relating to labour issues (Article 181, Paragraph 2). Up to now, DOLISAs were in charge of coordinating and implementing labour-market policies and managing activities undertaken by the network of local labour-market agencies.

5.5.3.3. Mass Organisations

Vietnam's General Confederation of Labour (VGCL)

In their relations to labour markets, the Vietnam General Confederation of Labour (VGCL) is considered as a representative for workers and one of the parties involved in labour-market transactions. In fact, however, the VGCL is a semi-governmental agency actively participating in the process of governance over labour and social affairs. The VGCL takes an active role in the formulation and implementation of labour and social policies. Also, as a representative of labourers, the VGCL's mandate is to protect the interests of working people in relations with the government and employers. Specifically, the VGCL participates directly in negotiations with other parties in the labour market on minimum wage levels, bonuses, part-time salaries, compensation, as well as in labour dispute settlement, etc.

The VGCL also controls and supervises implementation of the Labour Code, and educates workers about the Code. The VGCL has four million members – roughly one-tenth of the total labour force in the country. The small membership is explained by the fact that farmers in rural areas do not participate in the VGCL labour unions.

The Vietnam Chamber of Commerce and Industry (VCCI)

The VCCI was established in the early 1990s, and, in regards to the labour market, it represents employers. However, its functions and mandate have not been clearly identified up to now. Although the VCCI set up a Bureau for Employment and Labour in 1997, not much has been done so far.

Non-governmental organisations (NGOs)

Apart from the above-mentioned key agencies, mass organisations and NGOs (such as Vietnam's Women Union, the Union of War Veterans, the Union of Cooperative Peasants, the Youth Union etc.) there are also very strong socio-political forces which have significant influence on the formulation and implementation of labour-market policy and functioning of the market itself.

In recent years, collaboration between MOLISA and these organisations in implementing labour-market policy have often taken place through specific labour-market promotion projects. MOLISA is involved through allocation and monitoring of resources that these organisations use to implement projects.

Up to the end of 1998, about 50 foreign NGOs had cooperated with MOLISA on labour and employment-related activities. Among them, the most important were the European Union projects (RAS), projects funded by the Japanese Government with technical support by the ILO, projects for small and medium enterprises, the programme for refugees' repatriation (HCR), employment projects supported by Germany's Federal Republic through GTZ, and training and retraining projects by ADB. Most of the projects carried out by these organisations concentrated on creating new job opportunities for workers.

In short, apart from tremendous changes in the economy itself over the last decade, Vietnam has experienced great changes within its institutions. These changes have greatly contributed to the creation of job opportunities and to the formulation and development of the Vietnamese labour market.

Constraints, however, still remain, concerning the institutional framework of the Vietnamese labour market. These include: (1) lack of clarification of roles and responsibilities between labour and employment management agencies; (2) lack of effective arbitration and court services; (3) weak employment services; (4) lack of an unemployment insurance system; and (5) conflicts caused by problems of different interest groups relating to labour and employment. Moreover, in spite of huge changes in the institutional framework regarding promotion of employment, these changes have mainly affected the state sector only. Meanwhile, millions of labourers from non-state and informal sectors are not subject to these changes.

5.5.4. Labour-market Policy in Vietnam

As noted above, there are significant revisions in the country's policy towards a more open and free labour market, and that revision can be clearly seen through changes in both the political concept, and individual perceptions and thinking by the

Table 5.28. Labour Employed in FDI Projects, by Sector and Branches

Sector	1994		1995		1996	
	Quantity	*%*	*Quantity*	*%*	*Quantity*	*%*
Agriculture, Forestry and Fisheries	2761	3.1	4380	3.1	4618	2.7
Industry	72063	81.8	114822	82.2	146120	84.5
Hotel	5763	6.4	8227	5.9	8212	4.7
Communications, Transport and Information	3605	4.1	5071	3.6	5608	3.2
Other sectors	3962	4.5	7178	5.1	8367	4.8
Total	**88054**	**100**	**139678**	**100**	**172925**	**100**

Sources: Adapted from reports of the Ministry of Planning and Investment, 1998

government and the people. Up to the present, however, Vietnam has not had a framework of policies truly targeting labour-market creation and its effective functioning.

During more than a decade of *Doimoi*, however, a number of labour-market-friendly policies have been implemented by both government and non-governmental organisations. These policies, specifically designed to deal with socio-economic development problems, have substantially influenced the formulation and functioning of the market.

The economic policies to a large extent have helped make considerable progress in promoting economic growth, reducing poverty, and overcoming the recent regional financial crisis. Labour market-friendly policies have helped to create a better match between supply and demand in the job market, and helped to increase economic growth and employment. The policies use a variety of tools to facilitate and improve the matching process in the labour market. They provide assistance to jobless persons, and to those threatened with redundancy, to help them find new employment and sustain themselves temporarily during periods between jobs.

Up to the moment, these labour-market-friendly policies cover a relatively wide range of income support schemes (unemployment assistance), measures to reduce labour supply (early retirement), as well as active measures directly stimulating new job creation and employment promotion. The latter include subsidised employment, public works, and support for self-employment. Policies have also helped increase the employability of job applicants through employment promotion or assistance provided to employment services.

5.5.4.1. "Active" Labour Market Policy

Active policy here refers to policy designed to alleviate the poverty associated with unemployment, as well as tensions in the labour market. Active labour-market policies have been implemented in various forms and have achieved satisfactory results. Among them the most important are job creation, training and retraining schemes, skills improvement, initial capital support programmes for small and medium businesses, etc.

National Programme for Employment Generation

Resolution No-120/HDBT (dated 11 April 1992) on *The main directions and solutions for employment problems in the years to come*, was the first document issued by the Vietnamese Government regarding a safety-net to alleviate the negative impact of restructuring the state-owned sector. Established in 1992, the programme directly promotes employment opportunities by providing labourers with subsi-

dised credit, severance payments, and training in new skills. Also, this scheme aims at providing grants and seed capital to private entrepreneurs for self-employment, or for the creation of new jobs for unemployed people. In general, this measure stimulated the redirection of labour towards newly-developing activities during the period of the most intensive structural changes. For rural areas, this programme provides loans for development of agriculture, forestry, and fisheries. Thanks to this programme, in 1997, over 130 job promotion centres were established throughout the country. The number of labourers provided with jobs increased as follows: 117,000 in 1992; 285,000 in 1994; 314,000 in 1995; and an estimated 300,000 in 2000. By the end of 1996, about 50 loan projects worth 20,000,000 million dong in total had created jobs for approximately two million labourers.

Investment-promoting policy and its impact on the labour market in the country

In order to develop the economy and create more jobs, a number of policies have provided various kinds of incentives to potential investors. The Vietnamese *Law on Promotion of Domestic Investment* stipulates that preference is given to projects that create more jobs for workers. The law serves to encourage all individuals and companies to invest in business and to increase wealth and employment. Since then, rapid progress has been reached in the area of business generation, particularly in the private sector. In 1995, non-state businesses numbered only 242,721. In 1996, the number had grown to 623,710 (an increase of 157 percent). In 1997 there were 1.4 million rural businesses in different economic sectors, including state-owned, private sector, cooperatives, households and individual businesses.

To the same effect, Vietnam's open door policy and the promulgation of the *Law on Promotion of Foreign Investment* have created preferential conditions to attract potential overseas investors. According to data given by GSO, by the end of 1998, Vietnam had attracted more than 2,200 foreign investment projects. Implementation of Foreign Direct Investment (FDI) projects has involved a significant number of workers from all economic sectors, especially from the industrial sector. Industry employs more than 80 percent of the labour force involved in FDI projects.

The positive impact of the policy to promote foreign investment can be clearly seen in percentage of the labour force working in those regions with better infrastructure. Ho Chi Minh City has 41 percent of total employment, and Dong Nai 21 percent.

The newly-amended *Law on Enterprise* has also remarkably contributed to creating new business in the country. And this in turn, has provided a large number of new jobs for workers. According to a report by the Ministry of Planning and Investment, 9,863 enterprises were established in the first nine months of the year as a result of the implementation of the new *Law on Enterprise*. With a total registered

capital of 9,397,000 million dong, these enterprises were three times more in number than those operating a year earlier, and they had three times as much registered capital. Over one-half of the newly established enterprises were based in Hanoi and Ho Chi Minh City. According to a survey by the Vietnam Chamber of Commerce and Industry (VCCI), it now takes only seven days and costs 550,000 dong on average to set up an enterprise.

Policies targeting promotion of non-farm activities in rural areas

Experiences in recent years have shown that development of handicrafts and non-farm activities have created a large number of jobs for rural labourers. According to statistics, these activities currently involve 29.5 percent of rural labourers. On average, each non-farm business has created jobs for about 27 full-time and eight to nine seasonal labourers, and one household business can provide jobs for three to four workers. The income of non-farm households has increased (the *per capita* income of non-farm households is 430,000 dong/month). Those households working full-time on non-farm activities can earn on average 236,000 dong/month. Those working part-time can earn on average 186,000 dong/month. These activities have also reduced the negative social phenomena of unplanned rural-to-urban migration. More than that, development of non-farm activities has also contributed to the promotion and implementation of the state policy on restructuring the economy towards industrialisation and modernisation.

Table 5.29. Labour Market-friendly Policy Initiatives in Vietnam

Type	**Specific policies**
Active labour market policy	• The National Program for Employment Generation was established in 1992 and has largely functioned as a safety net targeting alleviation of the negative impacts of the restructuring of the state-owned sector, as well as promoting employment opportunities through providing severance payment, subsidised credit, and skills training • Investment promotion policy creates laws on investment promotion • Policies targeting promotion of non-farm activities • Rural credit schemes are widely used to support productive activities of poor households. The schemes are carried out by the Vietnam Bank for Agriculture and Rural Development and the Vietnam Bank
Passive labour market policies	• Severance payment schemes applied to redundant workers in SOEs. • Early retirement schemes
Policies to encourage demand for labour	• Job creation programs • Financial support and assistance for self-employment • Preferential credit schemes for female-operated businesses
Policies to influence supply of labour in the labour market	• Population and family planning policies and migration programs have been implemented in a variety of forms • Community health care programs for fighting malaria, goitre; providing vaccinations; promoting mother and child health — largely carried out throughout the country • Educational training policies are applied to ensure that all communes (basic administrative level in Vietnam) have a good primary school and to provide informal education for non-school children, and illiterate adults, and to improve vocational training to meet market requirements • Employment service development policies and more than one hundred employment

Other programmes to build rural infrastructure and support agricultural services, are important efforts of government in rural areas. These include building rural roads and commune schools, providing clean water for rural areas, and exploiting new land, coastal zones and surface water in delta areas, etc. These policies have also indirectly contributed to the creation of new opportunities for labour, especially the poor in rural areas, though they have not been designed specifically to meet labour-market objectives.

Rural credit policy

Over the last few years, one of the policies which aims at job creation in rural areas has been the Programme on Provision of Credit to the poor. This policy is widely used to support productive activities of poor households. Specifically, the Agricultural and Rural Development Bank, an institution assigned by the government with the function of providing credit for rural areas, was established in 1990. Up to the present, there have been 2,600 establishments created with a total capital invested of over 26,000,000 million dong, of which 90 percent is mobilised capital. It is estimated that up to the end of the year 2000, the fund will provide more than 40,000,000 million dong to the poor. This amounts to providing each rural household with approximately 1.2 million dong. In total over seven million households will be provided with loans. The Bank for the Poor is also a new credit channel targeting the poor. Beneficiaries of the bank are poor households in both urban and rural areas, which have shown interest in borrowing money for business promotion purposes, and/or for other purposes leading to an increase in their own income and to poverty alleviation.

5.5.4.2 The "Passive" Labour Market Policy in Vietnam

This category of policy includes all the programmes and schemes implemented so far within the country and aiming at overcoming the immediate financial difficulties of employees who have been laid-off, and/or for other reasons are out of work. This also includes policy measures designed to minimise undesirable social consequences caused by the changes in the process of economic restructuring. Thus, most of the passive labour-market policies implemented in the country are targeting labour redundancy in the state-owned enterprises (SOEs).

The process of restructuring and rearrangement of state-owned enterprises has resulted in a significant reduction in their number (from 12,000 enterprises before the process to 5,280 after). As a result, a large number of SOE employees become "redundant," i.e. cannot be provided with any job in the SOEs due to the shortage of jobs and/or due to the individual's inability to meet professional and technical requirements. In fact, redundant labour also includes those from dissolved and bank-

rupt enterprises, as well as employees whose jobs were lost as a consequence of the SOE-restructuring process. At the moment, the Vietnamese government provides incentives to redundant labourers who voluntarily leave their jobs.

These incentives include:

A severance payment scheme: This scheme provides all SOE employees, whose jobs are cut, with severance, or loss-of-job allowances, as stipulated in the Labour Code. More than that, the state grants some supplementary assistance to redundant labourers who were recruited on lifetime labour contracts, but voluntarily agree to leave their jobs. These additional benefits are not available to employees working on 1-3 year or seasonal contracts.

An early retirement scheme: Among labour-market policy measures undertaken by the Vietnamese government to deal with labour redundancy in SOEs, early retirement has drawn special attention. In practice, redundant labourers in SOEs who are willing to take early retirement, are classified into groups such as:

a) Employees who have made sufficient social security contributions, but fall one to five years short of the required number of working years;
b) Employees who attain retirement age, but need to pay social security contributions for one to two years more;
c) Redundant labourers not belonging to either group (a) or group (b).

The state provides assistance to each of these groups according to the Labour Code and/or provisions of respective regulations such as Decrees No.44/1998/ND-CP and Decree No.103/1999/ND-CP. Specifically:

- The state pays social security contributions (at a rate of 20 percent) for employees who attain retirement age, but need to pay social security contributions for a maximum of two more years to be entitled to retirement benefits;
- The state pays social security contributions (at the rate of 20 percent) and provides monthly pensions equivalent to a maximum 70 percent of the current level of salary for employees who need five more years to reach retirement age. Upon attaining retirement age, these employees will be entitled to retirement benefits.
- The state provides retraining assistance during the retraining period equivalent to no more than 10 months of earnings at minimum wage and also provides 18 months of salary at the level currently received by the employees.

The state also creates jobs for redundant labourers.

5.5.4.3. Policy to Influence Demand for Labour in the Market

If seen from the demand side, there are now numerous policies to create a better match between available labour and the existing demands for labour. The main purpose of these programmes is to increase labour demand during periods of weak demand, and to provide unemployed individuals with a job or workplace and the means of choosing an occupation/position or training programme.

Over the past few years, policies have rapidly grown in importance, and target both individuals and enterprises. They include a number of different specific policies. Among them are policies to create jobs for new labour-market entrants, or for employees who have been laid off. The most notable is the above-mentioned National Employment Generation Programme. Other policies, while not designed to directly create a new job, in practice have explicitly affected the increase in labour demand (e.g. the policy on promotion of the development of small- and medium-scale enterprises, and the policy on multi-sector economic development).

The incentives given by government to encourage domestic and foreign investment, and to motivate diversification of products, have been widely applied, and have become factors contributing significantly to an increase in domestic labour demand. In addition, financial support and/or preferential credit policies such as rural development credit schemes, credit for the poor, business promotion credit, as well as policies encouraging sustainable use of natural resources (land, forests, water, minerals, etc.), have also contributed to creating jobs and demand for labour.

5.5.4.4. The Country's Policy Affecting Labour Supply

Population growth control policy

Population growth control and family planning policies have long been implemented in the country and have been successful in reducing the rate of birth. As it was said above, Vietnam is characterised by a high birth rate and a large population, making the country one of the least-endowed in the region in terms of land and other natural resources. The country's highly successful population control policy has helped not only to narrow the gap between the supply and demand for labour in the market, but also has directly translated into poverty reduction. Practices have shown that households with many children are often ranked among the poorest. This is because they not only have fewer labourers in relation to the number of family members to feed, but they also have more education expenses to meet, and are more likely to incur lack of access to health care services.

Education and training policies

During the last decade, the government has initiated a number of policy interven-

tions in the educational and training system. One policy ensures that by the year 2000, all communes have good primary schools. Another recently-implemented policy provides incentives to develop informal education for children and illiterate adults who, for one reason or another, have been unable to go to school. To this end, a policy for improving vocational training to meet market requirements has also been actively taking place.

The Vietnamese government has recognised that education is important for climbing out of poverty, for acquiring skills, for general and occupational knowledge, and for accessing information. Education is closely tied to being aware of new opportunities and for understanding new techniques. Moreover, Vietnam, like any other country in transition today, is faced with serious problems of skill mismatches in the labour market. Thus, it is understandable that strengthening government commitment to universal primary education, a balanced approach to vocational training, and flexible adjustment to the demand for skills becomes the main focus of new policy.

Community health-care policy

This policy encompasses a wide range of activities including programmes of socialisation, and some privatisation of health care services. Activities include: "a programme of preventive measures" promulgating and implementing in practice the premise of "prevention is better than cure;" a policy for medical insurance; and government supports aiming at increasing the accessibility of rural inhabitants to health and sanitary services, etc.

5.6. Concluding Remarks

In the last few years, great efforts have been made by the Vietnamese government in creating a new legal framework for the labour market. Indeed, during a relatively-short period of time, thousands of legal and regulatory documents have been issued explicitly aimed at improving the employment situation, and encouraging demand for labour and moderating its supply. Numerous economic policies implemented during recent years have brought about significant results in the economy, as well as solving employment problems facing the country.

The large and rapidly-growing population of Vietnam supplies more than one million new entrants to the labour market each year. This on the one hand, is a factor-endowment advantage of the country, since the large volume of workers and low cost of labour attracts many investors. On the other hand, the large size of the population and of the labour force creates strong pressures on the economy, in the

sense that it causes unemployment and labour redundancy.

Although the country has managed to maintain a relatively high rate of GDP growth even in the face of the regional financial crisis, growth has been achieved almost without big increments in employment creation. Part of the reason is the excessive overstaffing in the state-owned enterprises. This makes it possible for the SOEs to increase production without increasing the number of workers. Also, many new technologies that are now used in manufacturing high-quality products, are labour saving. And what is more important, the number of new jobs created so far in services and in some industries are not sufficient to absorb the large number of unemployed job seekers.

Another feature of the newly-created labour market in Vietnam is the widespread skill mismatch. Many skills have become outdated due to changes in technology and new forms of work organisation. This fact demands more skill training and retraining activities. So far these needs have been poorly met. The severe shortage of highly-skilled workers is caused not only by skill mismatches, but also by the ignorance of both government and families of the value of vocational and technical training.

Among others, the reasons for unemployment in cities and underemployment in rural areas can be attributed directly to insufficient attention to the private sector. Although discrimination against the private sector has formally been removed, in reality the sector is still facing a bulk of "invisible rules" that prevent its development, as well as hinder the movement of workers into non-farm activities.

As a matter of fact, as the Vietnam economy is still heavily-dominated by agriculture, and as non-farm activities in the countryside are still not strong enough to absorb underemployed rural workers, it is clear that the share of employment in agriculture in the country's villages will remain high for a long time.

Although some regions (e.g. the southeast region) and sectors (e.g. the service sector) have recently seen more or less intensive developments in the wage labour market, wage employment still accounts for less than 20 percent of total employment. This explicitly implies a low level of development of the labour market and of the country itself. As a consequence, self-employment continues to be a primary form of employment (about 80 percent of total employment) and is very important in rural areas. Many regions within the country are experiencing unemployment in both open and hidden form. Employment-intensive programmes could help relieve the situation and contribute to the general socio-economic development of the regions.

There is no doubt that recent developments in the labour market have contributed greatly to economic growth and poverty reduction. This can be seen very

clearly through the performance of a number of labour market-related schemes and/or programmes. However, it is hard to say that the success can be attributed only to labour market progress.

The regional financial crisis, to the surprise of many Vietnamese economists, has hit the country's labour market. This is apparent from the obvious slowing down of the economy, which in turn translated into an increase in the rate of unemployment in the non-state sector. Women and young workers were those most hurt by the crisis. It has also produced a negative effect on the income of labour in the state sector. More than that, adjustment of the labour market has also been taking place inside firms. The number of idle workers in SOEs has increased, and the working-hours of wage employees in urban areas has declined.

In short, along with a number of successes, recent developments of the labour market in Vietnam also created many problems. Solving these problems is vital to the process of successful economic and social transformation within the country. It is clear that the policy response provided so far has been inadequate and requires a more comprehensive approach. The approach must be based not only on increasing employment opportunities and raising the quality of newly-created jobs, but also on reversing negative trends in human resources development and the use of human capital. Just as important is the need to protect the rights of both employees and employers.

In addition, the relevance and quality of the country's labour-market policies should be regularly assessed. To achieve this, information should be gathered and carefully analysed on the number of participants in each programme, the total costs of programmes, the number of jobs created, and the distribution of programmes by geographic region.

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