POLICY BRIEF
Job Prospects For Youth, Low-Skilled and Women Workers in the Greater Mekong Subregion
Edited by Vathana Roth
POLICY BRIEF
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Abbreviations

ASEAN
Centre for Economic and Social Development
Central Institute of Economic Management
Cambodia Socio-Economic Survey
foreign direct investment
gross domestic product
Greater Mekong Subregion
Greater Mekong Subregion Research Network
International Development Research Centre of Canada
Informal Employment Survey
International Labour Organization
International Standard Classification of Occupations
International Standard Industrial Classification
instrumental variable
Khmer riel
Kunming University of Science and Technology
Labour Force Survey
linear probability model
Myanmar Garment Manufacturers Association
Myanmar kyat
Ministry of Labour, Immigration and Population
minimum wage
overtime
Pour un Sourire d’Enfant
Royal University of Phnom Penh
social insurance
small and medium-sized enterprise
state-owned enterprise
Skills Towards Employability and Productivity
School-to-Work Transition Survey
Thailand Development Research Institute
Technical Vocational Education and Training
United Nations Development Programme
US dollar
Vietnam Household Living Standard Survey
Vietnam Institute of Economics
Vietnamese dong
Introduction
Thailand has enforced a minimum wage (MW) policy since 1972. The biggest change happened in 2012 when the then government increased the MW to 300 baht, representing an average increase of about 44 percent – the largest increase ever. Previous studies on Thailand found evidence that, despite a high degree of non-compliance with MW policy, the MW helped increase workers’ average wages (Leckcivilize 2013; Carpio, Messina and Sanz-de-Galdeano 2014; Carpio and Pabon 2014; Lathapipat and Poggi 2016). These studies looked at the impacts of MW on workers as a whole, regardless of their nationality. Nonetheless, since migrant workers are more vulnerable to abuse and exploitation by employers and officials, it is sensible to conjecture heterogeneous impacts between local workers and migrant workers.

This policy brief is drawn from a study aiming to complement the existing stock of knowledge about the impacts of MW on migrant workers in Thailand (Panpiemras, Boonwara and Ruttiya 2019). Using qualitative research methods (employee interviews) and available secondary data on wages from the Informal Employment Survey (IES) and Labour Force Survey (LFS), we studied how wages, overtime work, working conditions, and living standards of migrant workers in Thailand have changed as a result of the policy.

The study
For qualitative research, we interviewed 100 regular Myanmar migrant workers employed in the food/food processing and garment sectors (50 interviewees in each sector) in four provinces. These two sectors employ a significant share of migrant workers. The interviewed workers are from 27 food/food processing factories located in provinces adjacent to Bangkok (24 in Samut Sakhon and three in Samut Prakan) and from 18 garment factories (12 in Tak, five in Samut Sakhon and one in Bangkok). These provinces host many factories in the sectors of our interest. In addition, for the garment sector, areas both near and very far away from Bangkok were purposefully chosen to reflect how law enforcement can vary across areas. For comparison purposes, in each sector, the interviewees were selected from both small (less than or equal to 100 employees) and large factories (more than 100 employees).

The interviewed migrant workers can be categorised into two groups according to the type of wage they receive: daily-wage workers, and piece-rate workers. The wages of piece-rate workers are based on the

Prepared by Boonwara Sumano Chenphuengpawn, research fellow, and Jirawat Panpiemras, research fellow, of the Thailand Development Research Institute (TDRI).
quantity/weight of the products they make: the more they make, the more they earn. In our survey, Tak has the highest concentration of piece-rate workers, accounting for about one-third of the interviewed migrant workers. All large firms in our sample pay daily wages.

To complement the qualitative analysis of migrant workers’ wages, we used data from the IES, conducted yearly by the National Statistics Office. The IES is the only national survey that collects information on foreign workers. Although we know that the foreign workers are regular workers, we do not know their nationalities. However, it is likely that most of them are from Cambodia, Laos and Myanmar because, according to the Ministry of Labour, around 95 percent of regular migrant workers in Thailand are from these three countries.

Key findings

Wages

It was found that 29 out of 100 interviewed workers were paid less than the MW rate. The share of workers paid less than the MW, in our sample, is somewhat higher in the garments sector than in the food and food processing sector. All daily-wage workers in the food/food processing sector received at least 300 baht, while the majority of piece-rate workers received less than 300 baht. The reasons why piece-rate workers did not receive at least 300 baht could be as follows. First, the piece rate may have been low, so getting at least 300 baht a day may have required doing a tremendous amount of work in one day, which may not have been possible. Second, the raw materials arriving at the factories in particular periods may not have been enough to generate an income of at least 300 baht a day.

Contrary to the findings in the other surveyed provinces, the majority of the interviewees in Tak received less than the MW. All interviewed piece-rate workers were paid less than 300 baht. More interestingly, almost half of the daily-wage interviewees in Tak did not receive the MW. This suggests that MW enforcement and compliance differs vastly across provinces.

To further investigate compliance with the MW, we used secondary data from the IES to calculate the proportion of migrant workers receiving less than the MW. Following Carpio, Messina and Sanz-de-Galdeano (2014), we defined three daily wage rates: above MW (>5 percent higher than MW), below MW (>5 percent below MW) and at MW (5 percent above to 5 percent below MW). As demonstrated in Table 1, after the implementation of the 300 baht MW policy in seven provinces in April 2012, the proportion of foreign workers getting below MW jumped to 42.09 percent, and the proportion of the above MW group dropped sharply to 15.97 percent. This is because the 300 baht MW policy was a big change, and firms were not yet ready and had difficulties raising wages.

To see how the degree of compliance with MW policy varies across important characteristics of foreign workers, we used IES data to
calculate the proportions of full-time migrant workers receiving wages above, below and at MW by gender, education, sector, firm size and region. The degree of non-compliance is higher for women: 28.72 percent of female migrant workers get below the MW rate compared to 22.52 percent of male migrant workers. Older migrant workers (aged 44 or more) are more likely than younger workers to be paid less than the MW. However, they are also more likely to be paid above the MW than younger workers. This result might be driven by heterogeneity among older migrant workers, as they differ in work experience and skills. The higher skilled and more experienced ones are more likely to receive above MW. Strikingly, higher education does not guarantee higher wages; 29 percent of migrant workers with secondary education and higher earn below MW, compared to 25 percent of migrant workers with just primary education.

Compliance also varies across industry and firm size. Manufacturing is the sector with the lowest non-compliance rate (13.63 percent), while agriculture has the highest (47 percent). Service sectors such as construction, wholesale and retail, and hotels and restaurants have high non-compliance rates, at around 34–38 percent. Based on our broad classification of firm size, size seems to have a positive relationship with compliance. That is, larger firms are more likely to comply with the MW than smaller firms. However, the high degree of compliance of larger firms does not mean that larger firms generally pay above the MW. In fact, most of the migrant workers employed in larger firms (79.49 percent) are at MW and only a small proportion (11.98 percent) receive more than the MW, the smallest proportion among the four groups of firms by size.

Last, there is much variation in the compliance rate at the regional level. Migrant workers in Bangkok and central areas are less likely to be paid below the MW rate than those in other regions, implying that enforcement is

<table>
<thead>
<tr>
<th>Year</th>
<th>Migrant Above MW</th>
<th>Migrant At MW</th>
<th>Migrant Below MW</th>
<th>Local Above MW</th>
<th>Local At MW</th>
<th>Local Below MW</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>38.79</td>
<td>35.23</td>
<td>25.98</td>
<td>74.12</td>
<td>9.24</td>
<td>16.64</td>
</tr>
<tr>
<td>2012</td>
<td>15.97</td>
<td>41.94</td>
<td>42.09</td>
<td>55.10</td>
<td>16.58</td>
<td>28.32</td>
</tr>
<tr>
<td>2013</td>
<td>17.88</td>
<td>48.44</td>
<td>33.68</td>
<td>53.58</td>
<td>18.59</td>
<td>27.83</td>
</tr>
<tr>
<td>2014</td>
<td>21.80</td>
<td>56.27</td>
<td>21.93</td>
<td>65.61</td>
<td>17.84</td>
<td>16.55</td>
</tr>
<tr>
<td>2015</td>
<td>20.17</td>
<td>62.51</td>
<td>17.32</td>
<td>68.35</td>
<td>17.81</td>
<td>13.83</td>
</tr>
<tr>
<td>2011–15</td>
<td>21.61</td>
<td>53.15</td>
<td>25.24</td>
<td>63.57</td>
<td>15.99</td>
<td>20.44</td>
</tr>
</tbody>
</table>

Note: the 300 baht MW was implemented in seven provinces in 2012 before being extended to other provinces throughout the country in 2013.
Source: authors’ calculation using data from IES and LFS 2011–15
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weaker in areas further away from central government. Tighter labour market conditions in Bangkok and central areas could be another reason explaining the higher compliance rate. Competitive pressure forces firms in these areas to pay at or even above the MW.

**Overtime**

According to the Labour Protection Act BE.2541, workers should be compensated at a rate of 1.5 times the hourly wage for each overtime (OT) hour. Therefore, workers earning 300 baht per day should be paid 56 baht for each OT hour. Almost all (45 out of 48) of the interviewed workers in Samut Sakhon and all of those in Samut Prakarn received at least 56 baht/OT hour. In Tak, it is not surprising that most (10 out of 13) of the interviewed workers received below 56 baht/OT hour. These underpaid workers were found in both large and small firms. Most of them never received OT pay, and a few of them were paid only 20 baht/OT hour, far lower than the legal minimum rate.

**Working conditions**

After the introduction of the 300 baht MW policy, some interviewed workers in the food/food processing sector were forced to work in a more stressful environment. Some described their changed working conditions: “They [the supervisors] keep a time record of how many pieces we can finish in an hour. They even limit toilet breaks during normal working hours to three at the most,” said an interviewed migrant in a food processing factory. Other migrants in the same sector explained “They force us to work harder and faster, putting us under more pressure.” This seems to reflect efforts by employers to squeeze productivity increases from workers to at least partly compensate the rise in labour costs.

**Standard of living**

It was also found that the majority of the interviewees thought that all types of expenditure had increased since the introduction of the 300 baht MW. More than 90 percent of them thought their living and housing costs had increased, more than 80 percent thought their transport and communications costs had increased, and more than 60 percent thought their leisure costs had increased. It is not clear, however, whether the increase in workers’ expenditures has been due to a price effect (goods becoming more expensive) or a quantity effect (wage earners being able to buy more).

We found that many of the interviewees in Tak were satisfied with their current wages. Thus, if these workers were to receive the 300 baht MW, their living standards would be much improved. Among the reasons why workers receiving less than 300 baht a day were still content with their wages are the following. First, the cost of living in Tak was relatively low. Second, migrant workers usually spent most of their time either in the factory or at home. Many of them
could not speak Thai, rarely talked to strangers, and hardly went outside their communities or factories (for safety reasons). Consequently, the interviewed migrant workers were able to save and send money back home. In fact, all of the interviewees in Tak reported being able to save, regardless of how much they were paid.

Policy implications
Based on our findings, we have six policy recommendations as follows.

For the Ministry of Labour
• Allocate sufficient budget and resources to support the enforcement of the Labour Protection Act, especially in remote provinces (e.g. by increasing the number of labour inspectors).
• Adjust the minimum wage rate for inflation to keep up with the rising cost of living. The MW rate need not be the same for all provinces; it should depend on the cost of living in each province.
• Promote awareness about workers’ rights among employers and employees with a strict notion that the Labour Protection Act is applied to local and migrant workers alike.
• Provide skills training for migrant workers. Migrant workers are vital to foster economic growth in Thailand and they should be offered training opportunities to upgrade their skills which would then help increase their productivity and wages.
• Streamline and facilitate migrant worker registration. This is one crucial way to strengthen the employment status and thus bargaining power of migrant workers in Thailand, which would then help prevent their mistreatment.

For the Ministry of Finance
• Offer employers an incentive (e.g. tax rebate) to raise wages to the MW level. For SMEs, the government could consider setting a budget for zero or low interest rate loans to help SMEs keep up with the MW rate.

References
Introduction
Vietnam significantly reformed minimum wages for the domestic sector in 2008. The minimum wage for the domestic business sector was separated from the basic salary for the state sector and regionalised to reflect differences in local conditions (e.g. prices, labour market, level of development). Three minimum wage levels were established, bringing the domestic sector into line with the FDI sector, then a fourth wage level for both sectors was added in 2009. However, huge gaps in minimum wage rates between the FDI and the domestic sectors persisted.

In subsequent years, minimum wages increased rapidly in both FDI and domestic business sectors, with higher minimum wage growth in the latter shrinking the gap in minimum wages between the two (Figure 1). This led to the gradual unification of minimum wages, culminating in domestic and foreign firms having the same minimum wage levels from October 2011. The unification of minimum wages was induced by the commitment to non-discrimination between foreign and domestic sectors made by Vietnam under the terms of its accession to the World Trade Organization in 2007. However, the four regional minimum wage levels were kept.

Between 2011 and 2015, minimum wages increased by about 15 percent annually, reaching VND2,150,000 (USD100) to VND3,100,000.

Figure 1: Minimum wage growth in Vietnam (VND 000)

Source: Authors’ calculation from minimum wages stipulated in government documents

Prepared by Vu Hoang Dat, Pham Minh Thai and La Hai Anh of the Vietnam Academy of Social Sciences.
(USD144) a month in 2015. Minimum wage rates rose significantly faster than labour productivity (World Bank Vietnam 2015). Before 2010, the minimum wage was found to reduce formal sector employment (i.e. in state-owned enterprises, foreign and domestic firms) and increase self-employment. But the rise in self-employment did not fully offset the fall in wage employment (Carpio, Nguyen and Choon 2013 cited in Carpio and Pabon 2013). Arguably, therefore, it would seem that total employment decreases as the minimum wage increases.

Given the minimum wage coverage in Vietnam since 2010, it is important to revisit the effects of minimum wages on employment and wage distribution. This policy brief draws on a study conducted to investigate the effects of the increases in minimum wages between 2010 and 2014 on total employment, labour movement between formal and informal sectors, and wage distribution in formal and informal sectors, with disaggregation in terms of gender and age (Vu, Pham and La 2019).

The research study
The study uses data from the Vietnam Household Living Standard Survey (VHLSS) for 2010, 2012 and 2014 and the Labour Force Survey (LFS) for 2011, 2012, 2013 and 2014. Both survey series are nationally representative. The former covers more than 9,000 households across the country following the standardised contents of the Living Standards Measurement Study (LSMS) of the World Bank. The latter has large sample sizes of more than 500,000 per year, providing sufficient information to investigate the questions. Appropriate econometric models are employed. We use standard difference-in-differences models to evaluate the discrete and simultaneous effects of the minimum wage on total employment and labour movement across sectors. We use the model developed by Lee (1999) to investigate the effects of the minimum wage on wage distribution.

In addition, a qualitative survey was conducted in Hanoi and Ho Chi Minh City in 2016–17 to learn about the impacts and responses of firms to the increase in the minimum wage. Different aspects such as firms’ implementation of the minimum wage, its impacts on labour cost and firms’ responses to the increase in the minimum wage were captured from interviews with 35 firms in different industries in each city.

The findings
Effects on total employment and movement across sectors
As shown in Table 1, the binding ratio (the ratio of workers earning below the minimum wage) increased rapidly between 2011 and 2014. The binding ratio of all non-farm wage workers almost tripled, from 3.8 percent to 11.6 percent. This increase

1 This model has been used in a number of studies on the same topic (e.g. Hansen, Rand and Torm 2015; Hohberg and Lay 2015; Bosch and Manacorda 2010).
is observed for all years but unevenly. The breaking increase was in 2012, when the binding ratio doubled. This pattern is consistent with the pattern of increases in real minimum wages. At almost 18 percent, the binding ratio for female informal sector workers was already high in 2011, yet more than doubled to 42 percent in 2014. This result implies that the increase in the minimum wage hit the labour market but whether its effects on employment and wage distribution are significant remain to be seen.

The results suggest that an increase in the minimum wage does not have any significant impact on total employment or labour movement across sectors. This holds true for the whole sample and for the subgroups in terms of age and gender as defined in Table 1.

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All non-farm wage</td>
<td>Non-formal</td>
</tr>
<tr>
<td>Whole sample</td>
<td>3.78</td>
<td>1.36</td>
</tr>
<tr>
<td>Female</td>
<td>6.82</td>
<td>1.82</td>
</tr>
<tr>
<td>Male</td>
<td>1.94</td>
<td>0.99</td>
</tr>
<tr>
<td>Older (30–65)</td>
<td>3.92</td>
<td>1.33</td>
</tr>
<tr>
<td>Young (15–29)</td>
<td>3.62</td>
<td>1.40</td>
</tr>
<tr>
<td>2013</td>
<td>10.55</td>
<td>4.24</td>
</tr>
<tr>
<td>Female</td>
<td>16.60</td>
<td>5.14</td>
</tr>
<tr>
<td>Male</td>
<td>6.69</td>
<td>3.43</td>
</tr>
<tr>
<td>Older (30–65)</td>
<td>10.61</td>
<td>3.86</td>
</tr>
<tr>
<td>Young (30–65)</td>
<td>10.46</td>
<td>4.71</td>
</tr>
</tbody>
</table>


That an increase in the minimum wage has no simultaneous effects on total employment and movement across types of employment can be explained by several factors. First, the significant decrease in net increments to the working-age population reduces pressure on employment creation in the labour market. This also has a positive impact on employment in the formal sector, as low population growth reduces both demand for informal sector goods and services and the supply of informal workers (Porta and Shleifer 2014).

Second is weak compliance with labour regulations. Estimates from the 2012 Enterprise Census indicate that about 40 percent of firms do not contribute to the social insurance scheme even though employees with a labour contract of more than three
months are subject to mandatory social insurance.

Third, a majority of firms in our qualitative survey in Hanoi and Ho Chi Minh City reported that they pay their workers more than the minimum wage. In this case, minimum wages are used only for calculating social and health insurance and other wage-related contributions. Firms’ social insurance contributions amount to about 22 percent of the compensation indicated in labour contracts. Therefore, when the minimum wage increases, a majority of firms face only 22 percent of the real increase.

Effects on wage distribution
The results indicate that minimum wages positively affect wage distribution in the formal sector, up to the 80th percentile. Put differently, minimum wage compresses wage distribution, bringing lower percentiles closer to the 80th one. The effect is stronger for young workers than for older workers. Meanwhile, the model does not work well for male workers or wage earners in the informal sector.

Policy implications
Increases in minimum wages have not yet had significantly negative effects on the labour market. However, the labour market may not be able to mitigate the negative impact of further increases in minimum wages. This possibility should be considered when determining minimum wage policy in the future. Furthermore, the insignificant effect could be due to low levels of regulatory compliance. The effect may be different if compliance is improved, especially in the informal sector where regulatory enforcement is very weak.

The joint effects of minimum wage increases and other policy reforms such as changes in the base and incidence of social contributions should be also considered. Since January 2018, social insurance contributions have been calculated based on the real total income of workers rather than reported income. In addition, workers with a contract of one month (changed from three months) or more are now subject to mandatory social insurance. Therefore, the interlinking of minimum wage increases with these policies would significantly increase firms’ labour costs and is likely to impact negatively on employment.

An increase in minimum wages can help reduce wage inequality in the formal sector, though at relatively high percentiles of the wage distribution. This implies that the minimum wage has a fairly strong effect on the formal sector and may distort the efficiencies and labour market behaviours of firms. For example, firms in the formal sector may invest more in capital as labour costs increase. An important implication of this is that investment exceeds the optimal point caused by distortion in the labour market, resulting in higher production costs.
References
World Bank Vietnam. 2015. “Điểm lại tình hình phát triển kinh tế Việt Nam: chuyên mục về thị trường lao động – xây dựng các quy định và hệ chế thị trường lao động hiện đại tại Việt Nam (Vietnam taking stock: Special Issue for Labor Market – Constructing Modern Regulations and Institutions for Labour Market in Vietnam).” www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2015/07/16/090224b0830000b1/10/Rendered/PDF/Diem0la0i000cap0en0kinh0te0Viet0Nam0.pdf.
Introduction
The 2013 Minimum Wage Law is indicative of the commitment of Myanmar’s government to transform the labour market by improving workers’ welfare and creating a competitive business environment. Following a series of tripartite discussions between the government, employers and employees, the daily minimum wage for an 8-hour working day was set at MMK3,600 in 2015, then revised to MMK4,800 in May 2018. Both times, the minimum wage setting process engaged multiple stakeholders, establishing a new precedent for policy making based on collective participation and empirical evidence.

The implementation of minimum wage legislation has created a new system of minimum wage regulations, which is arguably beneficial to all workers across sectors. However, it is important to consider some of the areas in which the economy has lagged. This policy brief presents an overview of the minimum wage negotiation process, analyses the socioeconomic effects of the minimum wage, and proposes policy recommendations to improve the effectiveness of minimum wage law and regulations.

Key results
- The minimum wage has positive effects on income equality in Myanmar by increasing the earnings of economically vulnerable groups, including low-educated workers and female workers.
- Minimum wage policy has a spillover effect on sectors that are not in its purview, including the informal sector and workers earning above the minimum wage.
- Although disemployment effects of the minimum wage are not observed, high labour turnover in industrial sectors lowers the rate of productivity growth.
- Firms adopted various strategies to comply with the legislation, such as increasing their production targets and reducing their investment in human capital development.
- The business environment in Myanmar shows very little improvement. As a result, the majority of labour disputes recorded concern layoffs and wages.

The context and process of minimum wage setting
Myanmar promulgated the Agricultural Labourers’ Minimum Wages Act in 1948 and the Minimum Wages Act in 1949 with

Prepared by Zaw Oo, Min Zar Ni Lin and Hanh Nguyen, researchers at the Centre for Economic and Social Development (CESD).
the aim of developing a fair labour market and promoting labour-centred development. However, the inexperience of the administrative branch and the conditions of newly established industrial relations meant that a realistic minimum wage system could not be implemented and enforced.

Although Myanmar transitioned from a socialist to a market economy in the early 1990s, its economic performance has been poor due to many shortcomings, resulting in market failures. A series of political reforms starting from 2011 enabled the newly elected quasi-civilian government to adopt more open market-oriented economic policies. At the same time, there were demands from the public for government intervention in the labour market where low-wage workers struggled to survive due to economic recession.

In order to address this issue, the union parliament redrafted and promulgated the Minimum Wage Law in March 2013. The National Committee for Designating Minimum Wage\(^1\) (the Committee) was formed to determine the minimum wage rate. The Centre for Economic and Social Development (CESD), with the support of the Ministry of Labour Immigration and Population (MOLIP), International Labour Organization (ILO) and International Development Research Centre (IDRC), contributed by conducting a survey to determine the cost of living in Myanmar. Information on labour market dynamics and living wages of workers and their families in the three regional capitals was collected and presented to MOLIP and the Committee. MOLIP also conducted a separate household expenditure survey of grassroots workers in states and regions to submit to the Committee.

The Committee then embarked on initial discussions and negotiations. National and regional workshops were organised periodically to build consensus among all parties. The minimum wage rates proposed in these discussions were re-discussed not only at meetings of the tripartite Committee but also at workshops attended by experts, domestic and international organisations and interested stakeholders. In addition to field survey data, the base salaries of civil servants and wage rates of daily wage workers were considered before the minimum wage rate was approved.

In August 2015, the Committee passed a notification of MMK3,600 as the first minimum wage a worker is entitled to receive for an 8-hour day in all sectors across the country. However, small enterprises with less than 15 workers, small family enterprises, and those in the special industrial zones are exempt from minimum wage requirements.

\(^1\) The tripartite National Minimum Wage Committee, which comprises 5 worker representatives, 5 employer representatives, 12 government representatives and 5 independent experts, is tasked to determine an acceptable minimum wage for workers and employers.
The Minimum Wage Law also gives the Committee the mandate, with the approval of the union government, to adjust the minimum wage. This can occur at least once every two years, depending on the situation and after inspecting work skills and workplace safety in commerce, manufacturing, services, agriculture and livestock production across the regions. Following the successful implementation of Minimum Wage Law in 2015, when the daily minimum wage for an 8-hour day was set at MMK3,600, the government ratified a new daily wage of MMK4,800 in May 2018. This adjustment represents the biggest minimum wage increase in the ASEAN region.

Designating the minimum wage in Myanmar is one of the most important processes of labour market reform. Policy priorities to improve workforce capacities include reforming wage structure, ensuring contract credibility, expanding training and education, improving social benefits, providing workplace safety and eradicating child labour. The minimum wage, together with other initiatives, underscores the government’s focus on economic objectives that prioritise labour welfare in the country. The introduction of a minimum wage has allowed Myanmar to tap special trade privileges such as the Generalized System of Preferences and motivated the US government to lift its economic sanctions on the country. These changes have brought forth tremendous results. For instance, export earnings from the garment industry increased from USD627.921 million (beginning of 2015–16 fiscal year to February 2016) to USD1,489.351 million (beginning...
Impacts of the minimum wage on the economy and labour market

The findings presented here draw on secondary data from the nationwide Labour Force Survey (LFS) 2015 and 2017, the World Bank Enterprise Survey in 2016 and the Myanmar Garment Manufacturers Association (MGMA), and primary data from a survey conducted in 2016 by CESD and Yangon University of Economics to assess the impact of the minimum wage in garment and food processing industries.\(^2\)

The minimum wage has a positive effect on income equality, directly increasing the earnings of economically vulnerable groups including low-educated workers and female workers. Minimum wage policy has arguably contributed to the increase in total monthly wages from MMK15,400 in 2015 to MMK170,800 in 2017 (LFS 2015, 2017). It has also had a positive effect on income equality. The gender pay gap has narrowed. Before the minimum wage, an average, female workers earned MMK96,700 per month or 33 percent less than male workers (LFS 2015). In 2017, the average monthly wage of female workers was reported to have increased by 65 percent compared to a 39 percent increase for male workers. The income gap between different economic groups has shrunk, increasing the wages of the lowest earners (CESD 2016). Specifically, income gaps between the highest-earning 20 percent and the lowest-earning 20 percent decreased 53 percent. Workers with the lowest level of education (read and write) are found to have benefited the most from minimum wage enforcement with a 67 percent increase in wages.

Minimum wage policy has a spillover effect on sectors beyond its purview, including the informal sector and workers earning above the minimum wage. Myanmar’s economy is characterised by the dominant informal sector, which is the main source of job creation in the country. The share of informal employment in total employment was estimated at 87.5 percent in 2015 and 82.45 percent in 2017. Even though Minimum Wage Law applies only to workers in the formal sector, the increase in total monthly wages between 2015 and 2017 indicates that it has benefited informal sector workers as well. Income gaps remain, however, with informal sector workers earning 54 percent less than formal sector workers (LFS 2017).

The minimum wage has also increased the salaries of workers earning above the minimum wage; all quintiles experienced a rise in total income, albeit at varying rates (CESD 2016). Figure 2 shows that

\(^2\) The survey was conducted in Hlaing Tharya Industrial Zone, Yangon region. It collected data on wages and benefits before and after the minimum wage, resulting in 525 observations from both food processing and garment sectors.
although there were high increases in the nominal wage before and after in the first quintile (89 percent) and the second quintile (53 percent), the differences declined markedly in the higher quintiles. For instance, the difference between the nominal wage before and after in the fifth quintile was only 22 percent.

**Although disemployment effects of the minimum wage are not observed, high labour turnover in industrial sectors lowers the rate of productivity growth.** Because the informal sector accounts for a significant share of domestic economic activities, the unemployment rate is traditionally very low. Between 2015 and 2017, the unemployment rate increased from 0.8 percent to 1.55 percent, the labour force participation rate decreased from 64.7 percent to 61.3 percent, and the share outside the labour force increased from 35.3 percent to 38.6 percent. However, in contrast to the challenge of job creation in Myanmar, employment in industry rose sharply.

At the same time, high turnover rates persisted in labour-intensive sectors, with possible implications for productivity growth. The number of employees in the garment sector rose rapidly, from 245,961 in 2015 to 324,390 in 2017 and then to 381,774 in 2018 (MGMA data). However, garment firms reported a monthly turnover rate of 7 percent (2017 CESD Apparel Survey), as garment workers tend to job hop due to low wages or health issues. Although intersectoral mobility is not a big problem for garment employers, high turnover rates could worsen Myanmar’s persistent poor productivity performance.
Firms adopted various strategies to comply with minimum wage legislation, including increasing production targets and reducing investment in human capital development. Data from CESD 2016 suggests that most garment and food processing firms comply with the legislation. However, a small number (9 percent) of employees reported receiving less than the minimum wage. In addition, employers have rearranged their production targets to boost productivity and cut back on training for their workers. In-depth interviews with garment employers and workers show that firms increased their production targets by an average of 30 percent in 2016. For instance, at a garment factory in Hlaing Thayar, the target increased from 80–100 pieces for 40 people per production line to 150–200 pieces for 30 people per production line. Some supervisors fear that although the minimum wage has a greater impact on operators, it will put more pressure on them to reach targets.

The business environment shows very little improvement. As a result, the majority of labour disputes recorded concern layoffs and wages. When the minimum wage was introduced in 2015, many private sector representatives complained that the government must address the challenges and barriers facing SMEs so that they could comply with the minimum wage effectively. The government responded to these demands favourably as it started to implement liberalisation measures to reduce the burden of over regulation on businesses. Myanmar’s steady rise up the Ease of Doing Business rankings from 187 in 2013 to 167 in 2016 is a testament to the government’s commitment.

Deregulation efforts and business environment improvements continue at a slower pace, suggesting a more challenging task of structural adjustment and institution building. Amid this situation, a new minimum wage could be burdensome for business, especially for SMEs. According to representatives of Shwe Lin Ban Industrial Zone Management Committee, 12 factories closed down between 2014 and 2018. Some labour-intensive industries such as garments are finding it difficult to pay the new minimum wage of MMK4,800, though this is not a problem for nonlabour-intensive factories as some already pay more than the minimum wage. Some garment sector employers argued that the rise in the minimum wage should be linked to workers’ skills; others said they would try to survive until the end of 2018, then they would decide whether to continue or shutdown. Indeed, most of the labour disputes recorded by MOLIP in 2016 concern layoffs (53 percent) and wages (21 percent).

Policy recommendations
The government, in particular MOLIP, needs to monitor compliance with Minimum Wage Law and take corrective measures to deal with noncompliance. This process should go hand in hand with
the formalisation of the economy. Formalising unregistered enterprises will help ensure the economic rights of informal workers.

**The government should implement initiatives to mitigate the negative effects of the minimum wage on employers and workers.** Labour-intensive industries such as garments will be the most affected by a hike in the minimum wage as the largest part of their production cost is wages. Therefore, it is imperative to resolve labour disputes arising from the minimum wage and create an economic environment conducive to good business. In this regard, it is important to have interministerial cooperation to resolve issues, some of which fall beyond MOLIP’s mandate.

**MOLIP, together with the private sector and development partners, should strengthen skill development schemes to boost labour productivity.** Most labour-intensive industries in Myanmar, particularly the garment and food sectors, used to maximise their profits by paying their employees low wages. However, the new minimum wage rate has put pressure on labour-intensive industries to improve worker skills, upgrade technology and enhance management practices to boost productivity and product quality. Amid the general trend of firms reducing investment in human capital development, it is necessary that the government, particularly MOLIP, provide skill development schemes to increase worker skills.

**The government should ensure improvements in workers’ net salaries and socioeconomic conditions.** The minimum wage was initiated to guarantee a minimum monthly salary for workers and resolve wage inequality across sectors. The law does not ensure an increase in workers’ net income. The government should therefore ensure price stability through inflation and exchange rate control. Moreover, it is crucial to raise awareness among workers about their rights and benefits, which in turn will keep firms accountable for their employees.

**The government should continue efforts to reform the economy and overcome obstacles facing businesses, especially SMEs.** The Ease of Doing Business index highlights four main obstacles: access to finance, poorly educated workers, access to land and electricity coverage. The government should therefore pay more attention to providing SMEs with access to finance, infrastructure and skilled labour.

**Future studies should monitor and evaluate the impact of the minimum wage in all sectors.** Besides labour-intensive industries, it is important to study the impacts of the minimum wage on workers in other sectors such as agriculture and services. Continuous assessment will make it possible to determine the wage rates needed to attract workers while keeping business profitable. This, in turn, will reduce labour underutilisation and labour turnover rates.
Investigating the Gender Wage Gap in Cambodia

Introduction
Despite fast progress in reducing poverty and providing more and better job opportunities, the gender pay gap is still an issue in Cambodia. Latest data shows that gender disparities in the overall labour force in Cambodia barely improved over the 10 years to 2014. The labour force participation rates of women and men remained virtually unchanged at 77.5 percent and 87.9 percent, respectively. Similarly, the employment rates of women and men nudged up just 0.8 percentage points and 1.2 percentage points to 77.4 and 87.8 percent, respectively (CSES 2014). What is most striking is the estimated difference between women’s and men’s annual earnings: in 2012, women earned just 71 percent of what men did (ILO and ADB 2013).

Economic structural change and growth over recent decades led to employment growth in non-agricultural sectors. The share of women in wage employment in the manufacturing sector increased from about 43 percent in 2004 to 53 percent in 2014 compared to men’s share of 44 percent, suggesting some improvement in women’s labour market position. However, the gender pay gap indicates that employment growth has not been sufficiently inclusive for women. Women earn a lot less than men: women employed in manufacturing, services and agriculture earn about 87 percent, 85 percent and 76 percent, respectively, of men’s average monthly wage (Cheng et al. 2019).

Women account for 43 percent of the labour force and make a significant contribution to Cambodia’s sustained economic growth (NIS 2015). The gender pay gap and attendant inequitable distribution of resources, if allowed to persist, could have serious implications for the country’s overall economic growth, competitiveness and prosperity. In response, the government is determined to promote education, skills training and work experience for girls and women and remove the barriers and eliminate gender discrimination that prevent women from getting equal pay, as stated in the National Strategic Development Plan 2014–18 (RGC 2014). Thus, in order to promote decent wage employment and fair pay for women, it is important to re-evaluate the gender pay gap and investigate the drivers of wage inequality.

This policy brief is drawn from a study by a team of Cambodian researchers as part of a multi-country research project funded and coordinated by the Greater Mekong Subregion Research Network on improving job prospects for young people, especially women, in the

Prepared by Cheng Savuth, RUPP, Ngov Penghuy, RUPP, Heng Molyaneth, RUPP, and Heng Seltik, UNDP.
Mekong region (Cheng et al. 2019). The study investigates the causes of the gender wage gap using data on wage employment, which is a very important segment of the labour market and a vital source of household income in Cambodia. This brief presents a summary of the study results and suggests policy areas where intervention may be needed.

The research study
The study used data from Cambodia Socio-Economic Survey (CSES) 2014, a nationally representative household survey conducted annually by the National Institute of Statistics. The CSES provides comprehensive information about the labour force and employment, defined as workers (both full-time and part-time) aged 15 to 64. It collects data on monthly salary, employment status, employment by sector, primary occupation, workplace and location (urban, rural) and demographic information on workers’ gender, education, age, ethnicity, family size and land ownership. CSES 2014 uses a large sample size, allowing precise estimation of the gender wage gap.

After generating descriptive statistics, the Oaxaca-Blinder decomposition technique was applied to separate the portion of the gender pay gap that is explained by differences between the characteristics of men and women (e.g. educational attainment, work experience, family size, occupation) from the portion that is not explained by those characteristics (i.e. unobservable factors). This method decomposes mean differences in log wages based on linear regression, expressed in the following equation.

\[
W_m - W_f = (X_m - X_f)\hat{\beta}_M + X_m(\hat{\beta}_m - \hat{\beta}_f)
\]

Difference between the average real wage of female \((W_f)\) and male \((W_m)\) workers

Observable differences between the characteristics of female \((X_f)\) and male \((X_m)\) workers:
- Education
- Work experience
- Economic sector
- Occupation
- Workplace
- Urban or rural
- Race and ethnicity

Factors affecting decision to become a wage worker
- Family size
- Marital status
- Household head education
- Assets (land ownership)

Unobservable factors:
- Discrimination
- Skills (hard/soft)
- Personal traits (work ethic, attitude, behaviour)
- Institutional (legal system)
- Culture/norms/stereotyping

* Notes: \(\hat{\beta}_m\) and \(\hat{\beta}_f\) are rate of return on observable characteristics. For instance, the rates of return on education in Cambodia for women and men are 3% and 4%, respectively. One additional year of education increases women’s average monthly wage by 3% (Cheng et al. 2019).
The first part of the equation is the observable portion of the gender pay gap and can be explained by gender differences in the characteristics listed. The second part is the unobservable part of the gender pay gap that cannot be explained by differences in wage determinants. For example, men and women in the same occupation and sector may have the same level of education, but women may be paid lower wages than men. This has often been put down to workplace discrimination, both intentional and unintentional. However, caution should be exercised when interpreting decomposition results because this part of the gender wage gap may be correlated with unobserved worker characteristics such as skill, motivation and factors such as institutional setting, cultural and social norms that can also affect earnings (Daczo 2012).

Key findings
CSES 2014 indicates that wage workers account for about 45 percent of the labour force, the self-employed about 50 percent and unpaid family workers about 5 percent. This suggests that wage work is an important segment of the labour force and also an important source of household income in Cambodia. Among wage workers, women account for about 43 percent and men for 57 percent.

The Oaxaca-Blinder decomposition results based on a sample of 10,190 wage workers (41 percent women, 59 percent men) are shown in Table 1. The results indicate that, on average, women are paid less than men. At KHR440, 000 (USD111), women’s average monthly real wage is about 15 percent or about 1.2 times lower than men’s average monthly real wage of KHR510, 000 (USD127). Put differently, women earn about 87 percent of what men earn.

- **Unobservable factors**: A significant proportion (115 percent) of pay inequality cannot be explained by differences in observable factors. This suggests that workplace discrimination, institutional factors such as law, culture and personal traits such as motivation and attitude are important drivers of the gender wage gap.

- **Education**: Gender differences in educational attainment explain about 17 percent of the wage gap. Women, on average, completed 7.27 years of education and men completed 8.15 years. The fact that women have a lower level of education than men widens the gender wage gap.

- **Work experience**: That women have less work experience than men explains about 12 percent of wage inequality. Women generally opt for part-time work because they do the bulk of household work, which is one of the reasons they accumulate less work experience than men.

- **Occupation**: Gender differences in occupation explain about 15 percent of the gender wage gap. Women’s employment is primarily concentrated in low-
wage occupations such as crafts and trades, whereas the percentage of women employed in high-wage occupations (e.g. as managers, professionals and technicians) is generally lower than that of men.

- **Urban/rural** differences do not contribute to the gender wage gap, indicating that the shares of women’s and men’s employment in urban areas are almost comparable.
- **Ethnicity** does not influence the gender wage gap.
- **Economic sector**: Gender differences by industry can explain 11 percent of the gender wage gap. This is because of the increasing numbers of women employed in high-wage sectors such as manufacturing (including export-oriented garment industry) and services compared to low-wage sectors such as agriculture.
- **Workplace type** has a negative impact on the gender wage gap, reducing it by 47 percent. This is because of the increasing numbers of women employed in high-wage firms, especially foreign firms and organisations.

The decomposition results suggest that women are paid 15 percent less than men. This disparity is partly attributed to gender differences in labour participation as an employee. Women’s paid employment rate is lower than that of men. Promoting women’s labour participation as
employees would lower the gender wage gap from 15 percent to 13 percent. Cheng et al. (2019) found that being married and owning land reduce women’s labour participation as employees and that family size and household head education increase the probability of women’s labour force participation as employees.

Policy recommendations

Based on the findings, policy actions to narrow the gender wage gap should focus on:

• Reducing discrimination against women and other forms of discrimination (both direct and indirect) that result in women getting lower pay.
• Creating the right policy and institutional environment to break down the social, cultural and legal barriers that prevent women from getting equal pay.
• Promoting more investment and trade in high-wage manufacturing and services sectors that employ growing numbers of women.
• Promoting women’s employment in high-wage firms including in multinational corporations.
• Promoting and supporting skill and educational development for women in competing for high-wage occupations.
• Reinforcing policy efforts aimed at narrowing education and work experience gaps by increasing women’s enrolment and retention rates in higher education.

References


Gender, Employment and Wage Disparities in Laos

Introduction

Women in Laos are major contributors to the economy, but their contributions remain invisible and therefore greatly undervalued due to the lack of sex-disaggregated data across all economic sectors. In the agricultural sector, women’s contributions to agricultural production, often unpaid, are crucial to household food security and the rural economy.

The lack of data on women’s employment, wages and labour market participation limits planners’ understanding of the real situation in the Lao economy, constraining their ability to plan or act effectively. There is thus a strong need for incorporating the gender dimension into employment statistics. From a policy perspective, it is important to explore the extent to which the gender wage gap is caused by different characteristics such as human capital, occupation and wage discrimination.

This brief summarises the findings of a study conducted by the Social Development Alliance Association to explore the gender wage gap in the Lao private sector (Siliphong and Phoumphon 2019). The study assesses the extent to which the magnitude of the gender wage gap, and the factors contributing to it, vary across occupations and industries. The specific objectives are to: (1) analyse differences in labour market participation and wage rates along gender lines, (2) identify the gender wage gap in small and medium-sized enterprises (SMEs), and (3) examine key drivers of access and opportunity barriers to employment encountered by female employees.

The research study

The sampling frame is 55,594 firms based on the Lao Economic Census 2013. The whole population is the non-agricultural economy, which includes mining and quarrying; manufacturing; electricity, gas and air conditioning supply; construction; financial services and insurance; real estate; education; services; and accommodation and food services.

Information was collected from a sample of 902 (out of a total 4,022) full-time employees in 183 SMEs in four provinces: Vientiane capital, Luang Prabang, Savannakhet and Champasack. The survey questions captured information on working conditions, wages and other benefits. In addition, 183 employers were asked about their perception of the gender wage gap in their businesses. The survey data was used for calculating the gender pay gap in the Lao labour market.

The study team used a Mincerian equation and Blinder-Oaxaca technique to analyse wage differences between female and male workers.

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Job Prospects For Youth, Low-Skilled and Women Workers in the GMS (Blinder 1973; Oaxaca 1973). The gender-specific wage equations are specified as follows:

\[ W_m = X_m' \beta_m + \mu_m \]  
\[ W_f = X_f' \beta_f + \mu_f \]  

where \( X_j \) is a matrix of worker characteristics (e.g. education, work experience which is proxied by age) and some firm characteristics (e.g. economic sector, geographical location); \( m \) and \( f \) denote male and female workers, respectively; \( \beta \) is a vector of unknown parameters, representing the effect of various covariates on the log wage (\( W \)); \( \mu \) is a vector of random error terms.

Applying the Blinder-Oaxaca decomposition, the estimated mean gender wage is generally expressed as:

\[ W_m - W_f = (X_m - X_f)' \hat{\beta}_m + X_f' (\hat{\beta}_m - \hat{\beta}_f) \]  

where the “bar” denotes mean values and the “hat” denotes coefficient estimates. This method divides the wage differential between males and females into a part that can be explained by differences in worker characteristics and a residual part that cannot be explained by such differences. Expression (3) is sometimes used to capture the effect of the unequal treatment of women in the workplace.

From the 902 observations, 883 employees provided sufficient information to calculate the hourly wage rate for equations 1 and 2. The remaining 19 employees provided information about their monthly wage but not the number of days or the average number of hours a day worked. They were therefore dropped from the estimation.

Key findings
- **Average salaries** in the SME sector are very low – USD145 (up from USD100 when first hired) for an assistant, USD177 (up from USD115) for an administrator, and USD350 for a manager. In short, we can conclude that salaries are low because most businesses are informal micro enterprises. In fact, 86 percent of Lao SMEs employ fewer than five employees (Lao Economic Census 2013), which reflects and complements the survey findings.
- **Gender differences in pay** are found to be statistically significant. On average and other things being equal, the average hourly wage rate of male workers is 11.2 percent higher than that of female workers.
- **Ethnicity** does not seem to be an important wage determinant as its effect is not statistically significant. This result was surprising given that minority ethnic workers are usually expected to suffer labour market disadvantages. However, the small sample size might be an issue. Around 89 percent of the workers surveyed were Lao-Tai; only 97 workers were from other ethnic groups.
- **Age** was not found to be an important wage determinant although the expected inverted U-shaped pattern between age
and earnings was observed. The estimated coefficient of the age variable indicated that with a one-year increase in age, the wage rate increases by 1.6 percent, which is quite a small increment.

- **Education and training** becomes significant only after upper secondary school. Compared to workers with no qualifications, workers with vocational training earned around 19.4 percent more, other things being equal. The return on a university degree was found to be around 21.1 percent.

- **Location.** On average, compared to employees in Vientiane, employees in the three other provinces earned 7 to 25 percent less, the largest effect being for workers in Champasak.

- **Sector.** The firms investigated operate in almost all sectors listed in the ISIC system, but the majority of sample employees work in services and manufacturing. A worker employed in the manufacturing sector earns around 18.4 percent more on average than an employee in services.

- **Compliance.** Notably, the estimated coefficient for employment contract – which is a proxy for compliance with labour law – suggests that those with an employment contract earn nearly 15 percent more than those without.

In sum, at 15.3 percent, the actual gender wage gap in the Lao labour market seems modest. This gap can be attributed to three factors. First, differences in the characteristics of female and male workers explain about 3.8 percent of the gender pay gap. This could suggest that male workers are slightly better educated and have more training opportunities than female workers. Second, differences in returns to worker characteristics explain about 11.2 percent of the gender pay gap. This means that even when male and female workers have identical characteristics, male workers earn 11.2 percent more than female workers. This component suggests the scope of discrimination against women in the labour market. The third component represents unobserved factors that could influence wage determination.

### Conclusion and policy recommendations

There are many gender dimensions to consider in employment. The majority of male employees are full-time workers in mining and quarrying, wholesale trade, motor vehicle assembly, and motorcycle mechanics. Female employees dominate education, manufacturing and services. Overall, female employees have less education than male employees. Male employees hold more leadership and high-level professional positions than female employees, and female workers hold more assistant and administrative staff positions than male workers. Both female and male employees receive scant health insurance coverage through their employers.
We can conclude that the salary of SME employees is very low because these businesses are small and operate informally. The gender wage gap in Laos is estimated at 11.2 percent. Average monthly salaries range from USD134 for assistants, USD176 for administrators and USD267 for senior technicians to USD365 for executives. Employees in microbusinesses tend to have lower salaries and less compensation than employees in SMEs.

From the research findings, we conclude that low education and lack of job skills are the most important factors for opportunity barriers to employment encountered by female and male employees.

Based on the findings, this brief suggests the following policy priorities:

• An array of labour market policies governs employment practices and wages in Laos’ private sector. The government should revise all policy documents from a gender perspective, including the Ministerial Decision on Technical and Vocational Education and Training and Skills Development and the prime ministerial decrees on Occupational Safety and Health, on the National Action Plan for Prevention and Elimination of Child Labour, and on Occupational Safety and Health. Salary guidelines on equal pay for the same value jobs set out in Labour Law should be reinforced.

• The government should conduct more public awareness campaigns to improve public understanding about the importance of gender equality and gender wage gap issues in the private sector through mass media, workshops, meetings, seminars and other high-profile events aimed at policy and decision makers.

• There is a need to improve data collection on wage differentials in various sectors and to create a national database to track the labour force and wages. The causes of gender pay gaps should be investigated in depth and the findings presented to the National Assembly, ministries, Lao Trade Unions, Lao Women’s Union and Lao National Chamber of Commerce and Industry in policy discussions at national, sectoral and local level on monitoring the gender wage gap and achieving pay equality.

References


Problem statement
The compulsory social insurance (SI) system in Vietnam has undergone considerable changes in recent years. The policy on increasing social and health insurance contribution rates has attracted much debate. From the firm’s perspective, social and health insurance contributions are essentially indirect labour costs. Thus, an increase in mandatory contribution rates may create a new burden for employers. Firms may respond in various ways such as by cutting wages, limiting employment security or downsizing the workforce. If the cost burden of SI policy is sufficiently large, the effectiveness of social protection would be weakened. This study explores the impacts of the changes in compulsory SI policy on state-owned enterprises (SOEs) and private sector firms in the country.

Methodology and data
The study uses panel data from Vietnam’s Enterprise Census conducted annually by the General Statistics Office, from 2006 to 2013. The surveys provide good information on firms’ characteristics, number of workers, types of firms, labour scale, total wages fund, total SI contributions and labour union fees. After data cleaning and checking the consistency of time-invariant variables between the eight surveys, a strong balanced panel of 2,838,664 observations over eight years was achieved for the purpose of our analysis.

Both descriptive and econometric analyses were undertaken to seek evidence of the impact of higher SI contributions on labour demand and average wage paid by firms. The econometric analyses used two basic models developed by A. Kugler and M. Kugler (2003). These econometric models include single independent variables and fixed effects equations. The independent variable of the ratio of the firm’s total SI contributions over the total wage fund helps to gauge the impact of SI on employment as labour demand and on wages as the price of labour. To consider the effects of other factors on firms’ wage and employment levels, both models were modified to include the following variables: ownership (SOE, private, foreign direct investment), industry (footwear, textiles and garments, other), firm size (number of workers: <10, 10–50, 51–100 and >100) and employee gender.

Results
For all enterprises: Review of the literature shows that firms, especially private sector firms, react to increases in SI contributions in different
ways. Apart from cutting wages and keeping fewer workers under compulsory SI policy, tax fraud and underreporting of wages commonly prevail. Given the big change in government policy introduced in January 2016, particularly the change in the assessment base for calculating SI contributions (which requires a larger contribution from both employers and employees), these undesirable practices may become more widespread in the coming years.

The empirical estimation results show that the average wage per firm and the ratio of the firm’s total SI contributions over the total wage fund are negatively correlated: a 1 percent increase in the firm’s total SI contributions would result in a 0.16 percent drop in average wages. The average number of workers per firm and the ratio of the firm’s total SI contributions over the total wage fund are positively correlated: a 1 percent increase in the firm’s total SI contributions would generate a 0.039 percent rise in the average number of workers. These correlations also hold true for industry, ownership, firm size and employee gender.

By ownership: The impact of the increase in SI contributions on average wage per firm is stronger in the state-owned sector than in the non-state sector. A 1 percent rise in SI contribution rates results in a 0.181 percent fall in average wages in SOEs but only a 0.023 percent fall in private sector firms and a 0.098 percent fall in FDI sectors. The impact on labour demand also varies slightly between ownership sectors. A 1 percent increase in SI contributions would result in a 0.011 percent increase in the labour demand of private sector firms, but a 0.027 percent decrease in the employment level of SOEs.

By industry: The estimations show that the average wage rate in all three industries studied is negatively affected by higher SI contributions. However, the impact is significantly higher in the shoe industry than in textiles and garments, and “other” industries. Regarding labour demand, a 1 percent increase in the ratio would result in a 0.390 percent increase in employment in the shoe industry and a mere 0.038 percent increase in employment in the textile and garment sector.

By enterprise size: An increase in the ratio of SI contributions in the total wage fund negatively affects the average wage in all firm-size categories. However, the impact for smaller enterprises is larger. The largest impact is found in micro businesses, where a 1 percent increase in the ratio of SI contributions in the total wage fund would result in a 0.018 percent reduction in the average wage per firm. The extent of this impact lessens as firm size increases, with a wage reduction of only 0.010 percent in enterprises of over 100 workers. At the same time, an increase in SI contributions positively affects labour demand in the two groups of smaller-scale enterprises (microenterprises and those with 10–50 workers. While the level of impact appears greater for these two categories, it
decreases as the size of the enterprise increases. For micro enterprises, a 1 percent increase in the ratio of SI contributions would cause a 0.517 percent increase in labour demand; and for firms with 10–50 workers, it would cause an increase of only 0.033 percent. The coefficient for the group of enterprises with 50–100 workers is very small; and for enterprises with over 100 workers, the coefficient of variation is insignificant.

By gender: Overall, the coefficient of the ratio of SI contributions in the total wage fund of all firms is found to be statistically significant at the 1 percent level. However, the magnitudes are very small, showing the minor extent of impact. This suggests that, in the event of increase in SI contributions, this factor would barely affect the average wage per firm.

Discussion of findings
In sum, Vietnam’s SI policies have different impacts on the average wage and labour demand in different firms. While the impact on employment is found to be insignificant, an increase in SI contributions is proved to affect labour prices. The impact differs by ownership, industry, firm size and employee gender. As the population of Vietnam is aging, the SI fund needs to be supplemented and SI contributions will therefore need to be adjusted accordingly. Apart from positive impacts, the policy to increase SI contributions could have several undesirable or even adverse effects on employment and on firms in different sectors. Firms tend to shift the costs of higher SI contributions to workers by lowering wages or even by evading tax. These practices could lead not only to erosion of the SI fund, but also to deterioration of the financial situation of workers. Therefore, any policy change should be well thought out and consider the results of more accurate policy analyses and evaluations.

Policy recommendations
To identify optimal SI contribution levels and secure the viability of the SI system, the following recommendations are proposed:

Understand the economy-wide efficiency of SI policy. The average wage per firm in all enterprise categories is negatively correlated with the ratio of a firm’s total SI contributions over the total wage fund (although the extent of impact is not very large). SI contribution rates should therefore not be raised so much that enterprises react by using lower-skilled (lower-paid) workers. This might lead to a decrease in labour productivity.

Pay close attention to state-owned enterprises. Although the average wage per firm is negatively affected by an increase in SI contributions in all ownership categories, this impact is stronger in SOEs. Therefore, any increase in SOEs’ SI contributions should be carefully considered.
Keep intervention in the labour market to the minimum necessary. Although the impact of SI policy on labour demand is seen in all three ownership sectors, the magnitudes of impact are minimal. This suggests that SI contributions are not a major factor affecting labour demand in all firms. Thus there is no significant pressure for the government to use SI policy to influence labour demand in any particular ownership sector.

Focus SI policy on industrial development priorities. The impact of SI policy on average wage per firm is found to be significantly higher in the shoe industry than in textile and garments and “other” industries. This indicates that SI policies may have different effects on different industries even if they are all labour-intensive. The government can therefore rely on its industrial development priorities to adjust SI policy towards achieving desired policy targets.

Calibrate SI contributions carefully by firm size. The impact of SI contributions on firms’ labour demand is found to be larger in small enterprises (micro and 10–50 workers). This effect should be seriously considered when setting overall policy for small-scale enterprises. Even so, the effect should not be overestimated to prevent adverse impact on wages through the possible negative reactions of employers.

Consider gender equality requirements carefully. As the results show, firms with different shares of female workers do not exhibit significantly different wage setting or labour recruitment behaviours. Before setting new SI policy, gender equality stipulations (e.g. increasing up female workforce participation rates) for labour-intensive industries should be carefully thought out.

Reform and strengthen SI compliance and enforcement. Tax fraud and underreporting of wages is found to be widespread among firms. In order to increase participation and ensure the SI system’s viability, SI policy reform should be combined with measures to reform complementary policies in other areas. If employees are not aware of their legal rights and employers simply do not respect the law, then law enforcement should be strengthened and public information campaigns conducted more frequently. Close cooperation with the Tax Inspectorate could help significantly in this matter.

References
Introduction
Lack of skills is considered a key determinant of unemployment, poverty and crime, and a key limitation on growth in developing countries. To increase the number of young people in formal employment, it is crucial that they are well equipped with skills relevant to labour market needs. Vocational training is a promising approach to help young people, especially those from economically disadvantaged backgrounds or who left formal education prematurely, to develop job skills.

The labour force in many developing countries is often characterised by a large number of young, low-skilled workers aged between 15 and 30 (the youth cohort), most of whom are either unemployed or trapped in low-paid informal jobs. In Cambodia, youth made up 33 percent of the total population in 2014. Despite the potential of this large youth bulge, it also poses a major employment challenge.

In 2014, the youth labour force participation rate was about 77 percent while about 60 percent of employed youth were in waged jobs. On average, youth had 7.3 years of schooling in 2014. Low-income students are most at risk of dropping out of school, either to work at home or to earn money to support their families; the opportunity cost of going to school is simply too high. Young people thus often enter the labour force without basic skills.

The Cambodian government has made strong efforts to improve employment prospects for youth, for instance, through the Rectangular Strategy III for Growth, Employment, Equity and Efficiency and the Technical Vocational Education and Training Strategic Development Plan 2014–2018. Further efforts are needed, though, if Cambodia is to catch up with other ASEAN counties in the context of the ASEAN Economic Community, especially in improving workforce skills.

Training tops the agenda. Yet evidence on the effectiveness of training in improving labour market transitions among youth in developing countries is scant. Experimental evidence is particularly scarce, and findings from recent randomised evaluations of vocational training programs are not clear-cut.

This policy brief draws on a study conducted to examine the effects of participating in a vocational training program targeted at young adults from low-income households (Ouch 2019). We focus on the impacts of the program on employment and barriers to taking up and completing the training. We also document the challenges and lessons from working with economically disadvantaged

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young people and households. These provide useful information and implications for more effective training programs and labour market policies in developing countries.

**The research study**
Experimental impact evaluation studies of vocational training programs are a new research approach in Cambodia.

**The intervention**
The intervention in this study was to provide two months of training in housekeeping. It targeted economically disadvantaged youth aged 15–30 residing in slums in nine of 12 districts in Phnom Penh, able to read and write and willing to participate in the training. Housekeeping was selected because there is a demand for it in tourism, it enables low-educated individuals to participate and suits both men and women. Designed and implemented in collaboration with Pour un Sourire d’Enfant (PSE), the training course consisted of 180 hours of classroom lectures and 180 hours of practice sessions. Classes ran from Monday to Friday from 7:00 am to noon and from 2:00 pm to 5:00 pm, and on Saturday from 7:00 am to noon. The training course ran four times between June and September 2016. Participants in all four rounds had the same teachers, curriculum and learning environment.

Participants received a uniform, lunch, study materials and 3.5 kg of rice per week, but no stipend. PSE offered a free shuttle bus service for those who lived along its bus routes, though students in rounds 3 and 4 received a transport allowance of USD1 per attendance. Those who completed the program received a certificate from PSE.

**Recruitment and treatment assignment**
The program advertisement was distributed to households and posted in prime locations in the target areas for about three weeks before the training started. A total of 231 individuals registered for the training. In each round, those registered were randomly assigned in 70:30 proportion to treatment and control groups; 162 participants were assigned to the treatment group and 69 to the control group.

**Data collection**
We conducted two surveys. Baseline data was collected from 181 participants (120 treatment, 61 control) either before the beginning of each course or during the first week of classes. The follow-up survey, carried out five months after the end

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1 PSE is a non-government organisation working with underprivileged children and is one of the most well-known vocational training institutes in Cambodia.

2 The transport allowance was given to participants in rounds 3 and 4 because of the high absence rates in rounds 1 and 2 and because most students in rounds 3 and 4 lived far from PSE’s training centre in areas not served by its shuttle bus. Training tuition fees were paid by this project.
of training, involved 125 participants (69 percent of the total baseline sample). The attrition rate of 31 percent is comparable to attrition rates from similar impact evaluations in other developing countries. Attrition did not bias the findings and baseline characteristics did not influence attrition.

**Baseline comparisons**

Statistical tests are conducted to assess baseline comparability, that is, to observe whether the means of demographic characteristics and labour market outcomes are significantly different between treatment and control groups. Column 4 in Table 1 shows that the measured characteristics of participants in the

<table>
<thead>
<tr>
<th>Table 1: Baseline characteristics of participants before the intervention</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Sample</strong></td>
</tr>
<tr>
<td>------------------</td>
</tr>
<tr>
<td><strong>Basic characteristics</strong></td>
</tr>
<tr>
<td>Age</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Male (=1)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Education (years)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Married (=1)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Work experience (months)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Training experience (=1)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Labour market outcomes</strong></td>
</tr>
<tr>
<td>Employed</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Full-time/casual employment</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Self-employment</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Hours worked</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Monthly earnings (0000 riels)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Observations</td>
</tr>
</tbody>
</table>

Notes: The primary outcome of interest is whether individuals are employed. We also observe other measures of labour market outcomes, including employment status, hours worked and monthly earnings. Employment status includes dummy variables “full-time/casual employment” and “self-employment” that take the value 1 if the characteristics are true and 0 otherwise. The variable “hours worked” indicates the number of hours worked in the last week, and “monthly earnings (0000 riels)” the total earnings in the last month. We impute zero for hours worked and monthly earnings if a participant reported being unemployed, an unpaid family worker, housewife/househusband or student. Standard deviation reported in brackets and standard errors in parentheses. Sample are individuals interviewed at both baseline and follow-up surveys. ** significant at 5%. 


treatment and control groups are virtually identical, except for marital status. Marital status difference is controlled for in regression analysis.

**Estimating the effects of the training program**

We combine baseline and follow-up data to estimate the impact of offering the program (intent-to-treat effects) on employment outcomes. Then we use an instrumental variable two-stage least squares approach, where the random assignment to training is used as an instrument for training attended, to identify the effects of attending the program (treatment-on-treated effects).

**Results**

**The effects of offering the training**

The program has no significant effect on employment, hours worked or earnings (column 1 in Table 2).

Being assigned to the treatment group increases the likelihood of being employed by around 8 percentage points and hours worked by about 3 hours, relative to the control group. However, the differences are not significantly different from zero. Participants in the treatment group earn about KHR50,000 (USD12.5) per month less than those in the control group, but the difference is also not significantly different from zero. It is likely that those in the control group had more time to look for work while those in the treatment group underwent training.

**The effects of attending the training**

Attending the training increases the likelihood of getting employment, including the likelihood of obtaining waged employment and being self-employed, and hours worked. Nevertheless, the impacts are not

Table 2: Intent-to-treat effects and treatment-on-treated effects of the program

<table>
<thead>
<tr>
<th>Dependent variables</th>
<th>ITT effects</th>
<th>TOT effects</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LPM (1)</td>
<td>Probit (2)</td>
</tr>
<tr>
<td>Employed</td>
<td>0.082 (0.111)</td>
<td>0.066 (0.108)</td>
</tr>
<tr>
<td>Full-time/casual employment</td>
<td>0.071 (0.110)</td>
<td>0.070 (0.107)</td>
</tr>
<tr>
<td>Self-employment</td>
<td>0.011 (0.057)</td>
<td>0.010 (0.054)</td>
</tr>
<tr>
<td>Hours worked</td>
<td>2.834 (6.502)</td>
<td></td>
</tr>
<tr>
<td>Monthly earnings (0000 riels)</td>
<td>-5.020 (6.456)</td>
<td></td>
</tr>
<tr>
<td>First-stage F stat.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: This table reports the coefficients of the variable \( \text{TRAINING}_i \) for columns 1 and 2. Regressions control for age, education, gender, marital status and recruitment round dummies. For probit regressions in column 2, we use margins with contrast operator in Stata 14 to estimate the average interaction effects. Robust standard errors clustered at the individual level are reported in parentheses. *** significant at 1%.
Training has an insignificant negative impact on monthly earnings.

**Barriers to taking up and completing the training**

There was a high dropout rate in this study, so we tracked program dropouts in the follow-up survey to explore the reasons behind that. The main reasons reported were: family obligations (31.9 percent), no transport to the training institute (23.4 percent), found work (17.0 percent), no monetary incentive to participate in the training (8.5 percent), lost interest in/dissatisfied with training (6.4 percent), and others including sickness and migration (12.8 percent).

**Some lessons**

We identified several challenges and learned some useful lessons from this randomised control trial, particularly from the experience of working with disadvantaged youth.

- Some prospective trainees were reluctant to lose daily earnings (e.g. from collecting garbage and selling it) despite the potential to earn a higher income in the long term. Some young people also migrated to other provinces for short-term and temporary jobs both during and after training.
- Travel to the training centre was another barrier preventing disadvantaged young people from accessing skills training.
- Some young people’s lack of life and work experience led to absenteeism and lack of responsibility when they were recruited after completing the training. Disadvantaged youth also seemed unwilling to spend time or put much effort into searching for jobs.
- Training institutes or centres play a vital role in helping young people complete training successfully and in monitoring their progress during and after training.
- Although the training program and training providers are important aspects of good training outcomes, the significance of participants’ family background should not be ignored. Some disadvantaged youth have been exposed to violence, illegal drugs and crime. Some young married women have to abide by their husband’s decision when it comes to training and work choices. Low personal motivation and lack of family support also lead to a low commitment from disadvantaged youth to invest time and effort in education or training. It is also crucial to consider increasing public awareness of the potential benefits of investing in children’s education and training.

**Policy recommendations**

This experimental impact evaluation offers many advantages for future vocational training programs, especially to reduce dropout rates. To ensure that wider skills training policies are more inclusive and effective, the following policy implications merit consideration.
1. Financial incentives, such as savings or income generation activities, could be incorporated into the training process. This would enable trainees to gain real-life experience and learn while overcoming their financial problems and difficulties. Realising their earnings potential would encourage trainees to take skills training more seriously.

2. Accessibility to training programs should be considered. The provision of transport subsidies may help reduce absenteeism and dropouts and boost completion rates.

3. Training providers should not only focus on imparting high-quality skills but also demonstrate their commitment to trainees’ personal development and wellbeing. Job-readiness training, job placement assistance, career guidance and counselling may be needed to help graduates break into the labour market.

4. Training institutes should also have strong industry linkages or partnerships to ensure graduates’ smooth transition into the labour market.

5. Training should respond to actual labour market needs. Training curricula and pedagogies should constantly evolve to keep pace with economic structural change and to ensure labour supply matches demand.

Further research with a larger sample size is needed to explore the generalisability of our findings to other contexts. Even so, we expect our results to improve understanding of the short-term effects of vocational training on labour market outcomes for youth in Cambodia and in other developing countries. Tracking the impacts of training over longer time periods is also needed to examine trainee retention rates and to develop more specific policy recommendations.

Reference
Ouch, Chandarany. 2019. “Vocational Training and Labour Market Transitions: A Randomised Experiment among Cambodian Disadvantaged Young Adults.” In Job Prospects for Youth, Low-skilled and Female Workers in the Greater Mekong Subregion, edited by Vathana Roth. Phnom Penh. CDRI.
Introduction
The lives of young Cambodians today are significantly different to what they were two decades ago. With socio-structural changes, key contexts for growing up have transformed. Education has become more accessible and students stay in school longer, and the labour market has afforded more occupational choices and greater physical and social mobility. Better living standards, higher mobility and greater information access, particularly among girls and rural youth, have diversified life priorities and cultural expressions. However, these opportunities and associated risks such as schooling and work quality are unevenly distributed. Educational gaps, income inequalities and differentiated employment opportunities, for instance, are common along gender and rural-urban lines.

This policy brief draws on the research project School-to-Work Transitions in Cambodia: Young People Navigating Opportunity Structures and the World of Work, funded by a grant from the Greater Mekong Subregion Research Network, aiming to explore young Cambodians’ experiences of school-to-work transition by focusing on how they navigate such experiences and the contexts they are in. It discusses key drivers of youth school-to-work transition in Cambodia and how they are (mis)aligned in the shaping of young people’s life course. This policy brief is a key reference for educators and policymakers to better understand the challenges facing young people during the school-to-work transition process and to develop early and sustained supporting mechanisms for youth to successfully engage in the world of work.

The research study
Three datasets were used for this study. First, to investigate gender- and class-based inequalities in economic participation, patterns and experiences of transition into working life, the research team conducted a preliminary analysis of secondary data from the Cambodia School-to-Work Transition Survey (SWTS) 2014, a nationally representative survey of 3,396 young people aged 15 to 29 in the capital and all provinces of Cambodia.

“Class” is conceptually complex. This brief refers to “class” along the line of physical place of origin, that is, rural versus urban place of birth. In other words, this study categorised youth into two “class” groups: those born in a rural area and those born in an urban area.

Growing Rich before Growing Old?
Youth, Work and Aspirations

Prepared by Sophannak Chorn, Department of International Studies, RUPP; Kreng Heng, Faculty of Education, RUPP; Rosa Yi, Faculty of Development Studies, RUPP; Chivoin Peou Faculty of Social Science and Humanities, RUPP.
The second set of data came from interviews with 23 policymakers and program administrators at state, public and non-governmental institutions conducted between September 2016 and February 2017. These interviews provided insights and information often inaccessible to the public and researchers outside policy and program circles. The data was used to aid the analysis of the social and institutional contexts of school-to-work transitions, as well as to understand the structural conditions of young people’s individual experiences.

The third set of data came from focus group discussions with 20 groups of young people aged between 15 and 30, conducted between September 2016 and February 2017: 6 in industry, 10 in services and 4 in agriculture. Each focus group comprised 4 to 9 people, giving a total of 139 participants. Six groups were classified as in “professional” or “high-skilled” jobs, including engineer, auditor, economist, lawyer, university lecturer, journalist, designer and medical professional. Fourteen groups were classified as in “low-” or “non-skilled” jobs, including smallholding farmer, construction worker, factory worker, restaurant worker, salesperson, receptionist, secretary, bank teller and cashier.

Discussion of findings

Changing life course context
Cambodia has undergone significant social, economic and cultural changes over the past 20 years. Sustained robust economic growth has transformed economic and employment structures (Table 1). This has had significant implications for young people’s life courses. Industrialisation began gaining momentum in the early 1990s, contributing 17 percent of GDP in 1998 and 26 percent in 2013. Employment in industry increased from just 4 percent in 1998 to 20 percent in 2013. Services also absorbed an increasing share of the country’s workforce, from 18 percent in 1998 to 32 percent in 2013. Agriculture’s shares of GDP and employment declined significantly in the same period.

Economic growth has been accompanied by changes in two key socio-structural contexts: wage labour and urbanisation. Rural

<table>
<thead>
<tr>
<th>Indicator</th>
<th>1998</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>46.3</td>
<td>33.5</td>
</tr>
<tr>
<td>Employment</td>
<td>77.5</td>
<td>48.7</td>
</tr>
<tr>
<td>Industry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>17.4</td>
<td>25.6</td>
</tr>
<tr>
<td>Employment</td>
<td>4.2</td>
<td>19.9</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>36.3</td>
<td>40.8</td>
</tr>
<tr>
<td>Employment</td>
<td>18.2</td>
<td>31.5</td>
</tr>
<tr>
<td>Urban population</td>
<td>15.7</td>
<td>21.4</td>
</tr>
</tbody>
</table>

Sources: Cambodia Population Census 1998, Cambodia Inter-Censal Population Survey 2013, World Bank Development Indicators 2016
people have increasingly abandoned, temporarily or permanently, farming for labour-intensive jobs in urban areas. This has resulted in rapid urbanisation, with the population of Phnom Penh alone tripling in the last 20 years. With more and more young people leaving the countryside and their elderly parents with the burden of farming, wage labour in agriculture has also risen.

Cambodian rural youth are moving away from family farming to urban wage jobs as they enter working life. Between 2004 and 2014, the proportion of youth aged 15 to 29 employed in agriculture dropped from 60 to 47 percent, with corresponding increases in youth employment in industry and services (Table 2).

Table 2: Youth (15–29) employment by economic sector (percent)

<table>
<thead>
<tr>
<th>Sector</th>
<th>2004</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>60</td>
<td>47</td>
</tr>
<tr>
<td>Industry</td>
<td>17</td>
<td>22</td>
</tr>
<tr>
<td>Services</td>
<td>23</td>
<td>31</td>
</tr>
</tbody>
</table>

Source: Authors’ calculation using data from CSES 2004 and SWTS Cambodia 2014

Cambodia has a youth bulge, with 32 percent of the population aged between 15 and 29 (Cambodia Inter-Censal Population Survey 2013). Forty-one percent of this cohort falls into the 15–19 age bracket, a critical life stage when young people usually leave school and/or take up full-time work. This puts immense pressure on state institutions to provide essential social and economic services, the lack of which has translated into reliance on family resources as well as significant inequalities in school-to-work transition.

Rural young women, compared to their urban counterparts, are particularly disadvantaged given their higher fertility rates and constraints on educational and occupational opportunities during pregnancy and child rearing.

Normative life course pathways have changed in recent years, especially for women. Physical mobility and education have expanded their life course possibilities – real or imagined – beyond traditional household-bound roles.

Given rapid changes in recent decades, life course expectations for the young generation have gradually shifted away from early marriage and parenthood, stable work identity and filial piety. Anecdotal evidence suggests well-resourced youth have increasingly appreciated experiences beyond work and family formation such as travelling, exploring their potential without feeling restricted by traditional norms, and engaging in non-economic activities.

The majority of young people entering the labour market are ill equipped for employment. Without a welfare state, they rely largely on family resources. This generates highly inequitable pathways to employment, whereby the well-resourced move into clerical or professional occupations and the poorly resourced into labour-intensive jobs.
**Entry into working life**

Eighty-five percent of young Cambodians aged 15–29 are in the labour force. At just over 2 percent, the unemployment rate in this cohort is low. If unemployment is a relative privilege in a relatively poor country, and if delays of entry into working life among youth mean greater opportunities for education and skill training, urban youth are clearly better off than rural youth, with higher unemployment and lower labour force participation rates among the former than the latter (Table 3).

On the other hand, that fewer young women than young men are in the labour force (82 percent versus 89 percent) suggests a disadvantage for the former as a less economically productive group. Overall, over nine in 10 young people, excluding those in the agricultural sector, are informally employed, depriving them of employment protection measures such as formal contracts and work-related social protection.

Vulnerable employment, commonly defined as own-account workers and contributing family workers, is characterised by inadequate social protection and lack of quality job opportunities. Evidence from SWTS 2014 shows that two-thirds of Cambodian youth, and significantly more rural than urban youth, are in vulnerable employment. The majority of youth are also ill equipped in both education and work skills.

Almost half of the Cambodian youth labour force still relies heavily on agriculture, which is generally considered susceptible to risk across the life course due to limited irrigation and farming technologies as well as the absence of state welfare support. Therefore, young people, especially those lacking a full education or vocational training, have found opportunities in manufacturing – mainly garments and footwear – and construction, representing 78 percent and 20 percent, respectively, of total youth employment in the industrial sector. These jobs are mostly labour-

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Table 3: Key youth (15–29) labour market indicators by sex and birthplace (percent)

<table>
<thead>
<tr>
<th></th>
<th>All youth</th>
<th>Youth labour force participation rate</th>
<th>Employment status (non-agriculture)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employed</td>
<td>Unemployed</td>
<td>Inactive</td>
</tr>
<tr>
<td><strong>Sex</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>80.1</td>
<td>2.0</td>
<td>17.9</td>
</tr>
<tr>
<td>Male</td>
<td>86.9</td>
<td>2.1</td>
<td>11.0</td>
</tr>
<tr>
<td><strong>Birthplace</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural</td>
<td>86.5</td>
<td>1.5</td>
<td>12.0</td>
</tr>
<tr>
<td>Urban</td>
<td>69.5</td>
<td>4.4</td>
<td>26.2</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>83.1</strong></td>
<td><strong>2.1</strong></td>
<td><strong>14.9</strong></td>
</tr>
</tbody>
</table>

Source: Authors’ calculation using data from SWTS Cambodia 2014
intensive and equally taken up by urban and rural youth. The industrial sector is clearly stratified, with 94 percent of young women and 58 percent of young men employed in manufacturing, and 39 percent of young men and 5 percent of young women employed in construction. In services, the majority of young Cambodians (57 percent), especially young women (63 percent versus 49 percent of young men), are engaged in trades, mostly small trades given the dominance of micro and small-scale enterprises, again leaving them without any formal social or legal protection.

The labour-intensive nature of youth employment is also reflected in occupational groupings by skill level (Table 4). Up to 73 percent of young Cambodians are in jobs – skilled or unskilled – that rely on physical strength, including as agricultural and fishery workers, craft and trade workers, plant and machine operators, and labourers. Another 20 percent are in service, shop and market sales jobs, which although classified by the ILO as non-manual involve considerable labour or non-office work. Urban youth and more female than male youth take up this kind of work.

Significant proportions of young people employed in service and sales work (36 percent) and in elementary occupations (37 percent) are overeducated for their job. Moreover, for other occupational groups, young Cambodians are considerably undereducated for their job, especially in high-skilled or professional occupations. These two concerning aspects may point to the poor quality of education and misalignment between education and training and the labour market. However, qualitative research with young people demonstrates that the Cambodian education system is
still highly effective as a life course institution, providing young people with a sense of self-competence and career goal development.

In terms of income distribution, two-thirds of Cambodian youth earn below the national average wage. Young women and rural youth are particularly disadvantaged, earning 80 percent and 77 percent, respectively, below the national average. Nevertheless, most Cambodian youth conveyed that they are “satisfied” with their job regardless of their work conditions and earnings.

**Life priorities and aspirations: Dignity, family, hope and uncertainty**

Cambodian youth are highly motivated, not only because they feel the need to make a living, especially the economically disadvantaged majority, but also because they generally desire better pay, better work conditions or new experiences. A majority of youth, especially the younger ones, expressed the desire to change jobs, mainly to seek better paid work or better working conditions. While this may be a function of the fluidity of labour-intensive jobs among low- or unskilled youth, or of skill-job mismatch among educated youth, from an agentic viewpoint, these young people undertake “active mobility” in search of what they subjectively consider a “real occupation,” or archib in Khmer.

For half of Cambodian youth, when asked about their main life goal in the SWTS 2014, the answer was “having a good family life”. The weight of the family was more prevalent among rural than urban youth (53 percent versus 39 percent) due to the critical realities of mutual family support as well as demands. More for cultural reasons, more young women than young men (54 percent versus 46 percent) chose a good family life as the main life goal. Our qualitative research on young people’s life experiences and thoughts about the future corroborates this result. When discussing decisions and life course events, such as staying on at school, leaving school, choosing university majors, selecting or changing careers, major concerns in life, dignity and future aspirations, the family plays a central role.

Opportunities, risks and uncertainties related to working life resulting from social change and new possibilities are a constant reality for young Cambodians. The precariousness of work and economic pursuit is a reality, well supported by survey data on various employment and labour market indicators. Still, young people generally remain hopeful about their future even as they cope with uncertainties on a daily basis. For many young migrant workers, their earnings, work experiences and life away from home have generated optimism and sometimes confidence that with perseverance and family support a better future is within reach. For more

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1 Views based on Bandura’s Social Cognitive Theory.
privileged youth, higher education and the expanding professional labour market have sustained hope and confidence that a good life is within reach. For both groups, work is always available, though may not always be what is desired, and a good future life is inclusive of financial prosperity and a good family life, which includes being able to care for elderly parents and providing a warm and loving home and education for children. However, those severely lacking family resources or sense of personal competence tend to find their future as fateful as others find their future manageable.

Policy implications
The dominance of informal employment and the lack of quality education and skills training to improve access to decent jobs, especially among rural youth, seem to have a negative impact on economic outcomes for youth and on economic growth in the long run. Despite the growing job opportunities in manufacturing and services, Cambodian youth will continue to live with uncertainty if they are neither supported nor protected through their school-to-work transitions and at work. Below are some recommendations drawn from this study to ensure young people can, in relative terms, grow rich before growing old:

- Compulsory and higher education, attractive career prospects, upward social mobility and middle-class aspirations should be promoted and made more accessible to those on the lower rungs of the socioeconomic ladder by improving various state welfare programs.
- To increase youth participation in skilled jobs, technical and vocational training linked to job market needs should be provided in secondary education. Building school-industry/private sector partnerships can retain more youth in education or training, delaying their entry to the labour market while inspiring them to develop career aspirations.
- Laws and regulations to institutionalise the transition to adulthood and working life, such as minimum age for employment and marriage, legal requirements for work compensation and compulsory basic education, should be strengthened. Policies and public services to facilitate these regulations have been slow to materialise or poorly implemented. Therefore, to shield citizens from life course risks, such as old age and illness, laws and regulations to institutionalise such transitions should be expanded and their implementation strengthened and hastened.

Reference
Skills Shortage: Chinese Firms and the Lao Labour Market

Introduction
Laos has sustained high economic growth averaging 7.8 percent over the last 10 years, driven by large inflows of foreign direct investment (FDI). Since Laos opened up to foreign investments in 1988, Chinese firms have invested and set up subsidiaries. China is now the biggest investor in the country, with cumulative investment between 1989 and 2014 of USD5.1 billion accounting for 33.13 percent of total FDI (Ministry of Planning and Investment 2014). Chinese firms are creating jobs and playing an important role in the country’s economic structural transformation.

However, in recent years, Chinese firms began encountering problems as they shifted their focus to manufacturing and service sectors. Labour costs have remained substantially high because shortages of labour and skills constrain production improvement, creating a bottleneck for the development of many Chinese firms in Laos. The World Bank’s 2012 Skills Towards Employability and Productivity (STEP) survey identified two crucial problems: labour quality and labour quantity. But it is unclear what skills are demanded by Chinese firms and lacking in the Lao labour force.

This policy brief summarises the findings of a research project conducted to identify the gap between the skills demanded by Chinese firms and those offered by the Lao labour force (Ying, Shuhui and Deng 2019). Exogenous factors resulting in such mismatches are analysed and the consequences assessed through micro-level analysis of the impact on firm productivity and worker behaviour. Identifying skill shortage in Laos will contribute to the growth of Chinese firms and the skills development of Lao workers.

The research
The project focuses on the labour and skills shortages faced by Chinese firms in Laos. Because it is difficult to collect long-term data on workers’ skills and abilities, studies often neglect educational attainment, skills acquisition, and learning through work (formal or informal) and life experiences and adopt education as a substitute variable for ability. Researchers attribute this to dependence on what is most easily measured, rather than what should be measured or the feasibility of doing so (OECD 2013). A separate and possibly more substantial reason that restricts the understanding of skills mismatch or shortage is that the supplier’s and the demander’s effects on the labour market have not been carefully considered.

Prepared by Ying Chen, professor, School of Development Studies, Yunnan University; Shuhui Wen, professor, Kunming University of Science and Technology; Bowen Deng, assistant researcher, School of Development Studies, Yunnan University.
The project involved a survey of Chinese firms and Lao employees. Matching questionnaires for firms and employees were designed based on the templates of the World Bank STEP survey. The firm questionnaire considers the measurement of skill composition and skill shortage to determine the stock and flow of employees in addition to obtaining basic firm-level information. The employee questionnaire deals with employee mobility and skill composition as well as employees’ personal information.

The survey collected data on 43 Chinese firms and 259 Lao employees across four sectors (agriculture, mining, manufacturing and services), as shown in Table 1. It paid particular attention to production and process workers, and services and sales workers. The employee composition is shown in Table 2.

Synthesis of the survey data allows for both a direct and indirect measure of skill shortages or skill mismatch. Skill-education matching usually involves three situations: under-matched, matched and over-matched. The survey obtained data on the skills possessed by workers in the firms investigated, but data on the skill requirement of those firms is limited. Since the skill level of a specific job is similar to the same area of work, and measurements of job skill requirements have been obtained internationally, this study adopts three standards to measure the skill level of the firms surveyed: sample criteria (by occupation),

<table>
<thead>
<tr>
<th>Occupation type</th>
<th>Project survey (Chinese firms)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
</tr>
<tr>
<td>Manager</td>
<td>6</td>
</tr>
<tr>
<td>Professional</td>
<td>33</td>
</tr>
<tr>
<td>Technician and associate professional</td>
<td>32</td>
</tr>
<tr>
<td>Clerical support</td>
<td>19</td>
</tr>
<tr>
<td>Services and sales</td>
<td>39</td>
</tr>
<tr>
<td>Skilled agricultural, forestry and fishery</td>
<td>2</td>
</tr>
<tr>
<td>Crafts and related trades</td>
<td>43</td>
</tr>
<tr>
<td>Plant and machine operator and assembler</td>
<td>24</td>
</tr>
<tr>
<td>Elementary occupations</td>
<td>61</td>
</tr>
<tr>
<td>Total</td>
<td>259</td>
</tr>
</tbody>
</table>

Source: Project survey, 26 July to 10 August 2016
Occupational Information Network (O*NET)\(^1\) criteria and STEP criteria (by occupation).

Skill mismatch not only affects the individual worker, but also slows firm productivity. Many studies focus on the relationship between education/skill mismatch and individual incomes (Bourdet and Persson 2008); in fact, more researchers pay attention to the negative impact of education mismatch, especially the over-educated issue. Although using education as a substitute variable for ability reflects workers’ skills, formal education is not the only way for people to accumulate skills, which can be improved through work experience, training, life experience and informal learning. Thus it is necessary to consider the relationships between education and income, and between skill mismatch and income.

Following Duncan and Hoffman (1981), we decompose educational attainment into three parts related to job requirements, expressed in the following equation:

\[
EduC = EduR + Over – Under
\]

where \(EduC\) represents educational attainment, \(EduR\) represents the educational level required by a job, \(Over\) means that a worker’s education exceeds the educational level required by the present job, \(Under\) means that a worker’s education is lower than the level required; it denotes a match if both \(Over\) and \(Under\) are 0. This decomposition method is introduced into an extended Mincerian wage equation, producing the ORU (overeducation-required-undereducation) equation:

\[
\ln(wage_i) = a_0 + a_1EduR_i + a_2Over_i + a_3Under_i + a_4Smis + X_i b + u_i
\]

\[
= a_0 + a_1EduC_i + (a_2 – a_1)Over_i + (a_1 – a_3)Under_i + a_4Smis + X_i b + u_i
\]

The project measures the skill mismatch of Lao workers in Chinese firms based on the ability level required by each occupation in O*NET, then takes the wage level, employee turnover and job satisfaction as dependent variables to observe the impact of skill mismatch on Lao workers.

Key findings

Based on analysis of the skill shortage and its effect on the labour productivity of Chinese firms in Laos, the main findings of this project are as follows:

- Lao workers make up the main manual workforce in Chinese firms. As Chinese firms develop, they are considering hiring or training middle and senior managers or professional technicians from

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\(^1\) The O*NET program is the nation’s primary source of occupational information. Central to the project is the O*NET database, containing information on hundreds of standardised and occupation-specific descriptors. The database is continually updated by surveying a broad range of workers from each occupation. Information from this freely available database forms the heart of O*NET OnLine, the interactive application for exploring and searching occupations. The database also provides the basis for our Career Exploration Tools, a set of valuable assessment instruments for workers and students looking to find or change careers.
Laos, but this needs to be speeded up and expanded.

- Chinese firms have provided a variety of employee training programs, but the effect is not so clear. High employee turnover has led to higher training costs and difficulties in improving the overall skill level of Lao workers.

- The cognitive abilities of Lao workers, especially reading, writing and numeracy, meet firms’ recruitment requirements.

- Memory and numeracy tests of Lao workers in Chinese firms show that mathematical ability is below average. It is difficult to improve cognitive ability in enterprise training.

- Noncognitive abilities, especially conscientiousness and extraversion, are the advantages of hiring Lao employees, and Chinese firms need to optimise this advantage; however, a lack of openness of character and emotional stability is a common problem for Lao workers. They are good team players, which is of great value in assembly-line production.

- Skill deficiency directly affects the income level of Lao workers. Low cognitive ability directly reduces income, and the impact of illiteracy is more prominent. Noncognitive abilities have no significant impact on income.

- Education has no significant effect on income in our sample, which is inconsistent with the classical Mincer equation. On the other hand, experience has a significant positive effect on income.

**Policy implications**

The educational attainment and skill acquisition of Lao workers do not meet the recruitment requirements of the Chinese firms surveyed. One important reason is that most of them did not finish compulsory education. This means that Chinese firms have to take a long view with their employee training. Compared with foreign-funded enterprises in developed countries and emerging economies, those in Laos need to make strenuous efforts to improve the cognitive and work skills of their workforce. Therefore, it would serve Chinese firms well to pinpoint the skill requirements for different occupations within their industry and implement targeted, flexible and detailed training programs.

First, a remedial action in both the short run and the long run to address skill shortage among Lao workers is to employ a number of foreign workers with specific expertise. New foreign-funded enterprises should moderately increase the number of skilled foreign employees, particularly technicians. One-to-one on-site training is feasible for solving skill deficiency in the short term. To ensure long-term policy effectiveness, the number of foreign employees should be reduced in stages until the maximum foreign worker dependency specified in foreign investment law is reached. Coupled with “learning by doing” assisted by foreign employees, this strategy can solve skill deficiencies among Lao workers and improve their cognitive and work skills. This can
solve skills shortages in the labour market in the short run and guarantee sustainable development for foreign-funded enterprises in the long run.

Second, reducing or eliminating the barriers to skill acquisition and skill upgrading among Lao workers is a must for the long-term sustainable development of Chinese firms. The Lao government, Chinese firms and local training institutions should work to discover and optimise the skills Lao workers already possess. The survey revealed that the managers of Chinese firms have not made full use of Lao workers’ skills. In some medium and small firms, efficiency was low and the management slack, lacking detailed and effective human resources management. Chinese firms need more worker-oriented management that draws on Lao workers’ initiatives.

Finally, strengthening international cooperation in skill development policies would be a win-win strategy for both Chinese and Lao firms. Although the cognitive ability of Lao workers is insufficient, they exhibit a conscientious attitude to work. The low level of cognitive abilities is mainly due to a lack of educational opportunities, so Chinese subsidiaries should cooperate with vocational schools and the human resource department in their parent firms in China to provide more on-the-job skills training and professional development opportunities.

References


